F1 All notes

The Business Organisation, its Stakeholders and the External Env

Purpose and Types of Business Organisations

Define business Organisation

Organisations are defined as:

"**social arrangements** for the **controlled performance** of **collective goals**" (Buchanan and Huczynski)

There are different types of organisations, all of which, whether they are profit or non-profit must concentrate on coordinating the 3 points.

These are:

1. Social Arrangement
2. Collective Goals
3. Control of Performance

Types of organisation

Accountants are employed by different types of organisation. Organisations can be divided into two main types:

1. **Business organisations**

   Business organisations engage in commercial and industrial activities, with the purpose of making a profit.

2. **Not-for-profit organisations**

   Not-for-profit organisations do not seek to make a profit, they exist to provide a benefit to the public, such as good government or key services such as health, education, a police.

They can be divided into two main types:

Public sector organisations: these are government departments or organisations that are funded by the government

Non-government organisations: these are not-for-profit organisations that are partly or wholly funded from non-government sources.

Examples are charities, clubs and societies.

Features of Business Organisations

The common features of a business organisation:

1. made up by a group of people who work together for the achievement of set goals – different people do different things or specialise in one activity
2. have business strategies to achieve goals/objectives
3. have a vision and a mission
4. have a culture which is formed by the organisational values
5. have structures (such as department, teams and divisions) and a sound system i.e. systems and procedures
6. have inputs which are processed and provide an output
7. have customers besides other stakeholders

Different Business Organisation

HOW BUSINESS ORGANISATIONS DIFFER:

1. **Size of the organisation** (number of employees)
2. **Number of organisational levels** (tall or flat organisation)

3. **Span of control** (this refers to number of people directly under the responsibility of one manager)
4. **Centralisation versus decentralization** (this refers to the extent to which decision making power is delegated down the organisational hierarchy)
5. **Criteria for departmentation** (might include examples such as geography, by product, by function etc)
6. **Profit or non-profit making**
7. **Ownership** – some organisations are owned by private owners or shareholders. These are private sector organisations. Public sector organisations are owned by the government.
8. **Technology** – for example, computer firms will have high use of technology but a corner shop has very low use.

Types of Business Organisation

DIFFERENT BUSINESS ORGANISATIONS

Commercial organisations

A very important difference within the structure of organisations is the difference between profit orientated (Commercial) and non-profit orientated organisations.

There is also a distinction between their **primary** and **secondary** goals.

The secondary goals exist to support the primary goal.

The primary goal of a profit making company is to maximise shareholders' wealth.

Business organisations come in all different shapes and sizes including sole traders, partnerships and LTD.

Limited companies

A Limited company has a separate legal personality from its owners (shareholders).

The shareholders cannot normally be sued for the debts of the business unless they have given some personal guarantee.

Their risk is generally restricted to the amount that they have invested in the company when buying the shares (limited liability).

The ownership and control of a limited company are legally separate.

Shareholders are the owners but have limited rights over the day to day running of the company.

They provide capital and receive a return.

Shareholders could be large institutional investors (such as insurance companies and pension funds), private individuals, or employees.

Directors are appointed by shareholders to run the company.

Executive directors participate in the daily operations of the organisation and

Non-executive directors are independent and are not involved in the day to day running of the business. They are invited to join in an advisory capacity to exercise overall guidance.

Co-operatives

Co-operatives are organisations in which there are members, and all members:

1. are actively involved in its activities, and
2. share in the benefits that the co-operative provides.

There are different types of co-operative.

1. In a workers' co-operative, a number of individuals co-operate to carry out related activities, such as operating a farm or a factory.

   They work for the co-operative and they share the benefits that the co-operative provides.

2. A number of individuals might form a co-operative for the purchase and use of expensive equipment.

   Each member of the co-operative is entitled to some use of the assets.

   For example, a number of small farmers might form a co-operative to purchase and use expensive agricultural equipment.

3. In a retail co-operative society, the members buy goods and services from the retail outlets of the co-operative society, and each year they receive a share of the profits that the society has made.

Mutual Associations

> A mutual association or organisation is owned by the member/clients that such organisation exists for.

> Generally mutual organisations deal with intangible products such as financial services, example, ACCA

Not-for-profit organisations

A non-profit organisation (NFP) works with a prime intention (primary goal) of providing a **good or a service** to different sectors of society for which they are set up to provide a benefit.

> For example, a school is set up to provide education.
>
> Charities, such as, the Red Cross is set up to provide a medical service.

Public Sector

Public Sector organisations are owned or run by the government. They are funded by and accountable to the government.

A major challenge that any government faces is that of balancing their limited resources with a huge demand for public services.

Examples of a public sector organisation are:

1. Hospitals
2. Armed Forces
3. Centrally funded agencies
4. Most schools & Universities
5. Government Departments

Non-governmental organisations (NGO's)

> A non-governmental organisation is an independent voluntary association of people acting together for some common purposes.
>
> These organisations often support such things as: conservation issues, environmental change etc.

Industrial & Commercial Sectors

SECTORS IN WHICH BUSINESS ORGANISATIONS OPERATE

Industrial sector includes companies that manufacture parts as well as those that assemble them into finished products.

A number of specific industries fall under the industrial umbrella, including automotive, aeronautics (aircraft building), textiles, pharmaceutics, bioengineering and metal casting.

Food refineries and packagers generally fall under the industrial category because of the types of facilities necessary for production.

Commercial private sector industries are additionally subdivided in two ways

1. **Retailers**

   = commercial industries who sell goods to the general public.

   This includes traditional outlets such as grocery stores, specialty shops, department stores and drug stores, but also includes online outlets such as online clothing stores or online book sellers.

2. **Wholesalers**

   Some commercial private sector industries buy from manufacturers and sell to retailers.

   Not all commercial industries involve wholesalers.

   In some cases, the retailer can buy directly from the manufacturer.

   Industries that commonly use wholesalers include manufactured office supplies and home goods.

In summary, the main industries in which organisations operate are:

1. agriculture
2. manufacturing
3. extractive raw materials
4. energy
5. retailing/distribution
6. intellectual production

7. service industries

Stakeholders in Business Organisations

Agency Relationship

Agency

Agency is defined in relation to a principal. What?! Well all this means is an owner (principal) lets somebody run her business (manager).

The agent is doing this job on behalf of someone else.

Footballers, film stars etc all have agents. They work on behalf of the star. The star hopes that the agent is working in their best interest and not just for their own commission…

Principals and Agents

A principal appoints an agent to act on his or her behalf.

In the case of corporate governance, the principal is a shareholder and the agents are the directors.

The directors are accountable to the principals

Agency Costs

- A cost to the shareholder through having to monitor the directors
- Over and above normal analysis costs
- A result of comprised trust in directors

Stakeholders

DEFINE STAKEHOLDERS

A stakeholder is a group or individual who has an interest in what the organisation does, or an expectation of the organisation.

It is important that an organisation understands the needs of the different stakeholders.

Stakeholders may be categorized as follows:

- Internal stakeholders
- External stakeholders
- Connected stakeholders

The diagram below lists some of the most important stakeholders of an organisation.

Internal, Connected and external Stakeholders

STAKEHOLDERS

Internal Stakeholders

Internal stakeholders are intimately associated to the organisation and their objectives are likely to have a strong influence on how it is run.

The main two examples of internal stakeholders are:

- Employees
- Management

Their interests to defend are jobs / careers, money, promotion prospects and benefits.

Connected Stakeholders

Connected stakeholders can be viewed as having a contractual relationship with the organisation.

The objective of satisfying the shareholders needs to be fulfilled, however, customers and finance objectives must be met if the company is to succeed.

Some examples of connected stakeholders may include:

- **Shareholders** – interested in shareholders' wealth measured by profitability
- **Customers** – interested in the company's products
- **Suppliers** – interested in building long term relationship, on time payment of goods and profitable sales
- **Finance providers** - like banks interested in loan security

External Stakeholders

External stakeholders have quite diverse objectives and have varying ability to ensure that the organisation meets its objectives.

Some examples of external stakeholders may include:

- Community at large
- Environmental pressure groups – pollution etc.
- Government – interested in tax and employment opportunities
- Trade unions – interested in protecting their members.

How different Stakeholder groups interact

STAKEHOLDERS GROUPS

The needs/expectations of the different stakeholders may conflict.

Some of the typical conflicts are shown below:

stakeholders	conflict
employees versus managers	jobs/wages versus bonus (cost efficiency)
customers versus shareholders	product quality / service levels versus profit/dividend
general public versus shareholders	effect on the environment versus profit/dividend
managers versus shareholders	vehicle for exposing managerial skills vs dividend stream and increase in the value of shares.

The Mendelow Framework

Understanding the Influence of each Stakeholder (MENDELOW)

This framework is used to attempt to understand the influence that each stakeholder has over an organisation's strategy.

The idea is to establish which stakeholders have the most influence by estimating each stakeholder's individual power over – and interest in – the organisation's affairs.

The stakeholders with the highest combination of power and interest are likely to be those with the most actual influence over objectives.

The Mendelow Framework

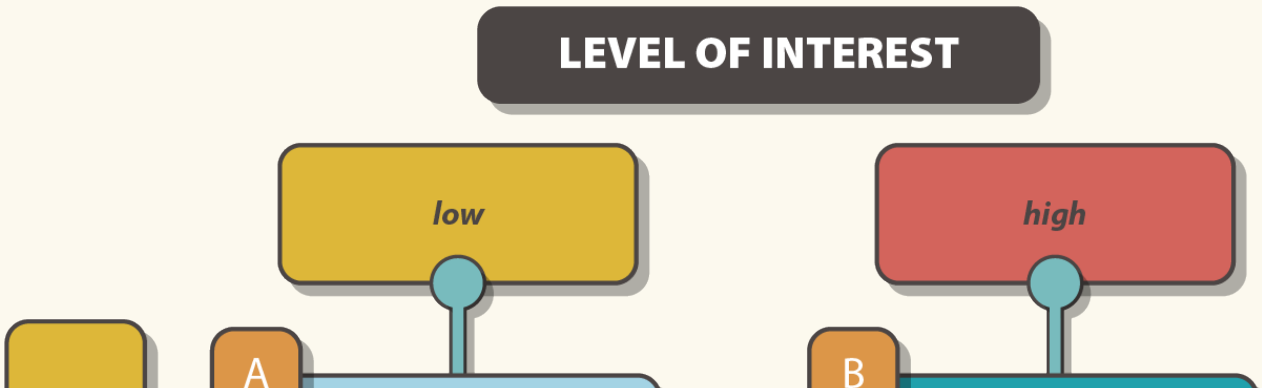
Power
Is the stakeholder's ability to influence objectives

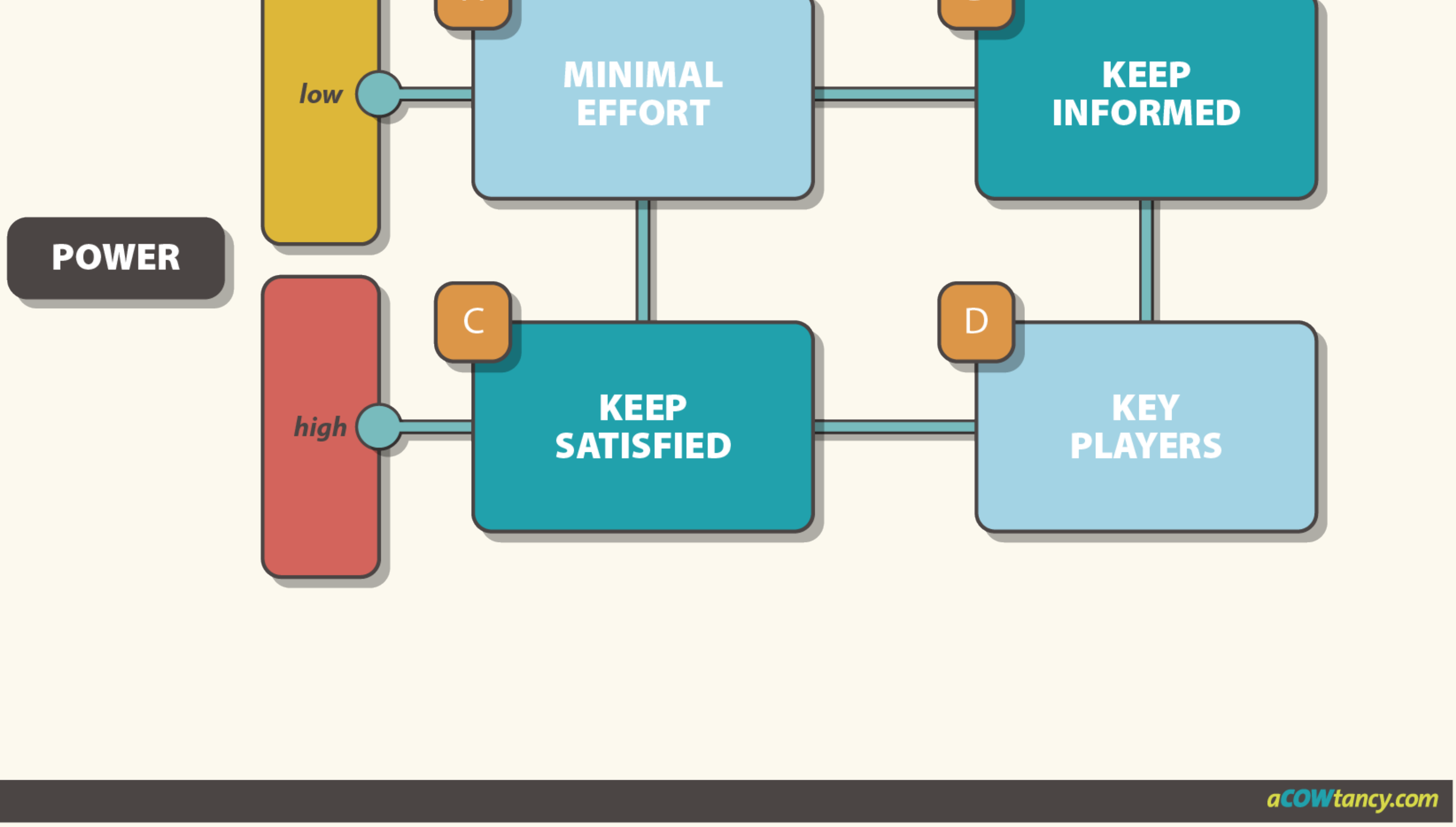
Interest
is how much the stakeholders care

Influence
= Power x Interest

However it is very hard to effectively measuring each stakeholder's power and interest.

The 'map' is not static; changing events can mean that stakeholders can move around the map





Mendelow Framework - explanation

1. **A) Low power, low Interest - Minimal effort**

   These can be largely ignored, although this does not take into account any moral or ethical considerations.

   It is simply the stance to take if strategic positioning is the most important objective

2. **B) Low power, high interest - Keep informed**

   Can increase their overall influence by forming coalitions with other stakeholders in order to exert a greater pressure and thereby make themselves more powerful.

   The management strategy for dealing with these stakeholders is to 'keep informed'

3. **C) High power, low interest - Keep satisfied**

   All these stakeholders need to do to become influential is to re-awaken their interest.

   This will move them across to the right and into the high influence sector, and so the management strategy for these stakeholders is to 'keep satisfied'.

4. **D) High power, high interest - Key players**

   Those with the highest influence.

   The question here is how many competing stakeholders reside in that quadrant of the map.

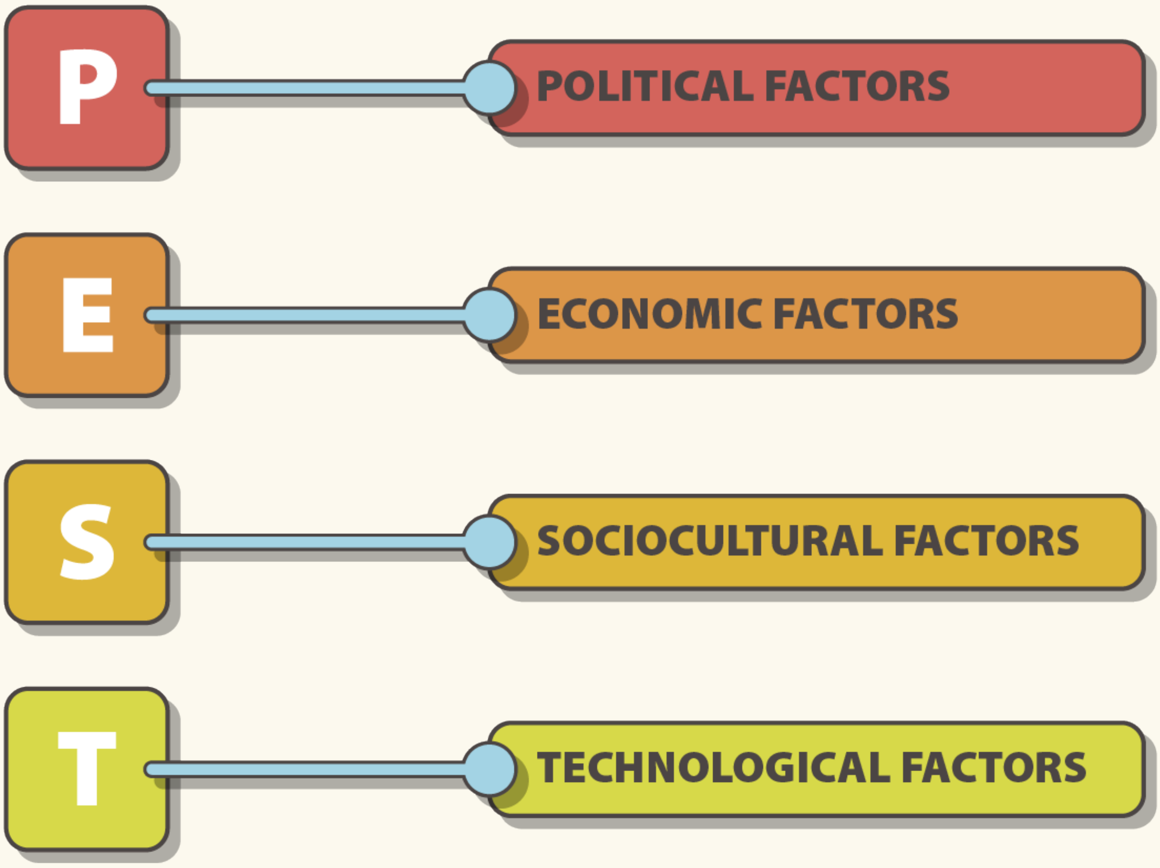
   If there is only one (eg management) then there is unlikely to be any conflict in a given decision-making situation.

   If there are several and they disagree on the way forward, there are likely to be difficulties in decision making and strategic direction.

Political & Legal factors

Political system and Government Policy

External Analysis



PEST analysis

The main components that an organisation should study in order to carry out an **external analysis (PEST analysis)** are:

1. **P**olitical environment/ Legal environment
2. **E**conomical environment/ Demographics
3. **S**ocial environment / Environmental environment
4. **T**echnological environment

Political Environment

Organisational decisions are strongly affected by developments in the **political environment**.

The political environment has its own system or framework. It regulates society therefore it regulates the system.

A political environment will have the following changes affecting a business:

- Policies and Laws (for example laws regarding housing, education, defense, healthcare, energy and environment)
- Taxation
- Local Councils
- Authorities
- Overall conduct of its economic policy

Legal Environment

Laws come from a number of sources. Common law, parliamentary and government regulations are derived from it.

The legal environment affects all companies, for example:

factors	examples
general legal framework	basic ways of doing business, negligence
criminal law	theft, insider dealing, bribery, deception
company law	directors & their duties, reporting requirements
employment law	dismissal, minimum wage, equal opportunities
health & safety law	fire precautions, safety procedures
data protection	use of information about employees/customers
marketing & sales	laws to protect consumers
environment	pollution control, waste disposal
tax law	corporation tax, income tax, sales tax

Sources of Legal authority

SUPRA-NATIONAL AND REGIONAL GOVERNMENTS

Sources of legal authority include the following:

1. **SUPRA- NATIONAL**

- United Nations resolutions (can be either substantive or procedural)
- International Court of Justice
- Other international agreements that apply to signatories (e.g. The World Trade Organisation sets rules on trade between member states)
- European Parliament
- European Courts

2. **NATIONAL**

- National Governments through Acts of Parliament
- Senior Courts (e.g. House of Lords in UK, The Supreme Court in the USA)
- Other major courts through the principles of case law and the setting of precedents

3. **REGIONAL**

- Regional/Federal Government (e.g. Welsh assembly in the UK, State Government in the USA)
- Local councils can issue by-laws in many countries (a law that is less important than a general law or constitutional provision)

Law protections for employee

Employment Legislation

Retirement

> In the UK, many employees are taking early retirement perhaps as a result of corporate downsizing but many people still search for work at an older age and there are pressure groups seeking to ban ageism.

Resignation

> People resign for many reasons, personal and occupational. Employees who are particularly valuable should be encouraged to stay.
>
> Particular problems the employee has been experiencing (example salary) may be solvable, though not always in the short term.
>
> In any case, an exit interview, when the leaver explains the decision to go, is a valuable source of information.

Dismissal

> The statutory minimum period of notice to be given is determined by the employee's length of continuous service in the employer's service.
>
> **Wrongful dismissal** is dismissal that breaches the contract of employment.
>
> **Unfair dismissal** is dismissal without a good reason for which the legal concept protects the employee.

There are 3 forms of dismissal:

1. by employer,
2. by the employee,
3. fixed contract without renewal.

Data protection and security

PRINCIPLES

Why is privacy an important issue?

There has been a growing concern that the ever-increasing amount of information about individuals held by organisations could be misused.

The fear was that by the existence of computerised data about an individual, whether correct or incorrect, could be transferred to unauthorised third parties at high speed and little cost.

In the UK, the current legislation covering that area is the DATA PROTECTION ACT 1998

The Act has two main aims:

1. to protect individual privacy (and not that of organizations)
2. to harmonise date protection legislation

The Principles of the Data Protection Act 1998

Schedule 1 of the act contains the data protection principles.

1. Personal data shall be processed fairly and lawfully and, in particular, shall not be processed unless:

   a) At least one of the conditions in Schedule 2 is met

a) At least one of the conditions in Schedule 2 is met
b) In the case of sensitive personal data, at least one of the conditions in Schedule 3 is also met

2. Personal data shall be obtained only for one or more specified and lawful purpose, and shall not be further processed in any manner incompatible with that purpose or those purposes.
3. Personal data shall be adequate, relevant and not excessive in relation to the purpose(s) for which they are processed.
4. Personal data shall be accurate and, where necessary, kept up to date.
5. Personal data processed for any purpose or purposes shall not be kept for longer than is necessary for that purpose or those purposes.
6. Personal data shall be processed in accordance with the rights of data subjects under this act.
7. Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data.
8. Personal data shall not be transferred to a country or territory outside the European Economic Area unless that country or territory ensures an adequate level of protection for the rights and freedoms of data subjects in relation to the processing of personal data.

There are several possible risks to data at the place of work. These include:

1. Human error
2. Technical error
3. Catastrophic error
4. Malicious damage
5. Dishonesty

Health and Safety in workplace

LAW PROMOTION AND PROTECTION

The importance of maintaining health and safety at work

There are three important elements to health and safety at work:

1. An employer has legal obligations under UK & EU law

2. The accidents and illness cost the employer money

3. The company's image in the marketplace and society may suffer

Employers Duties

All work practices must be safe.

The work environment must be safe and healthy.

All plant and equipment must be maintained to the necessary standard.

Information, instruction, training and supervision should encourage safe working practices.

Employers must provide training and information to all staff.

The safety policy should be clearly communicated to all staff.

Employers must carry out a risk assessment, generally in writing, of all work hazards.

Assessments should be continuous.

They must assess the risks to anyone else affected by their work activities.

They must share hazard and risk information with other employers, including those on adjoining premises, other site occupiers and all subcontractors coming onto the premise.

They must introduce controls to reduce risks.

They should revise safety policies in the light of the above, or initiate safety policies if none were in place previously.

They must identify employees who are especially at risk.

They must employ competent safety and health advisers.

Compliance with Laws

DATA PROTECTION, SECURITY AND HEALTH & SAFETY

People should be able to be confident that they will not be exposed to excessive risk when they are at work.

This means that risk and danger must be actively managed.

This is the main reason why security has become so important in today's world.

Data is protected by secured information technology apart from being secured by law.

The employee also has responsibilities when it comes to health and safety at work.

To take reasonable care of their own health and safety.

To take reasonable care not to put other people - fellow employees and members of the public - at risk by what they do or don't do in the course of their work.

To co-operate with the employer, making sure they get proper training and understand and follow the company's health and safety policies.

Not to interfere with or misuse anything that is been provided for their health, safety or welfare.

To report any injuries, strains or illnesses you suffer as a result of doing their job.

To tell the employer if something happens that might affect their ability to work.

Principles of consumer protection

SALE OF GOODS AND SIMPLE CONTRACT

Consumer protection laws are designed to ensure fair trade competition and the free flow of truthful information in the marketplace.

The laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors and may provide additional protection for the weak and those unable to take care of themselves.

Consumer Protection laws are a form of government regulation which aim to protect the rights of consumers.

Unfair Contract Terms

> **Unfair Contract Terms Act 1977** is an act of Parliament of the United Kingdom which regulates contracts by restricting the operation and legality of some contract terms.
>
> They are intended to provide broad protection for consumers, and business practices which are likely to distort consumers' decisions regarding their purchases generally fall within this act.
>
> Certain kinds of unfair term can have that distorting effect, for instance through misleading consumers about their rights.
>
> Under contract law, the money you give in exchange for the goods is referred to as the "**consideration**".
>
> For a contract to take place there must be agreement between the parties.
>
> This requires an offer made by one party and **acceptance** by the other party.
>
> An important point about contracts is that they **do not** have to be written. They do not even have to be spoken.
>
> A customer picking up something in a supermarket and walking to the checkout is making an offer to the shop, and that offer is **implied** by his behaviour.
>
> When one party to a contract fails to carry out his part of the agreement, the other party can take legal action against him for **breach of contract**.
>
> So if a business has a customer who is failing to pay, they can take him to court.
>
> When one party makes a misrepresentation to the other, the **contract is void**.

The Sale of Goods Act 1979

is an act of the Parliament of the United Kingdom which regulates English contract law and UK commercial law in respect of goods that are sold and bought. The Sale of Goods Act performs several functions.

The Act lays down a small number of compulsory legal rules, but these restrictions are minimal: the bulk of the Act is concerned with an array of presumptions and implied terms, which aim to reflect the commercial expectations in the most commonly agreed sales contracts.

agreed sales contracts.

In the absence of contrary agreement these terms will govern a contract within the Act's remit. The Act applies to contracts where ownership of goods is transferred or agreed to be transferred for a monetary.

Imagine you are about to enter into a contract for the purchase of some goods.

What might you be concerned about?

You may want the goods delivered for a particular occasion or **date**

Are the goods stolen, i.e. **does the seller have a right to sell the goods?**

You would expect the goods to be the same type and **quality as the description** or any sample

The goods should be **reasonable quality and suitable for their purpose**

Macro-Economic Factors

Macro-economic policy

DEFINITION

Macro-economic policy / macroeconomics

is concerned with the total (aggregate) scenario of economic issues that determine a person's economic well-being as well as that of one's family and everyone s/he knows.

These issues involve the **overall economic performance** of the nation, rather than that of particular individuals.

1. Do citizens find it easy or difficult to find jobs? **(Unemployment rate)**
2. On average are prices rising rapidly, slowly, or not at all? **(Concept of inflation)**
3. How much total income is the nation producing, and how rapidly is total income growing year after year? **(Productivity)**
4. Is **interest rate** charged to borrow money high or low?
5. Is the Government spending more than it collects in tax revenue? **(Government budget)**
6. Is the nation as a whole accumulating assets in other countries or is it becoming more indebted to them? **(Foreign trade deficit)**

6. Is the nation as a whole accumulating assets in other countries or is it becoming more indebted to them? **(Foreign trade deficit)**

Each of the above questions involve a central macroeconomic concept that affect the factors of production – land, labour, capital and entrepreneurship.

The basic task of macroeconomics is to study the behaviour of the policy objectives, namely economic growth, inflation, unemployment and balance of payments and why each matter to individuals and what the government can do (if anything) to improve macroeconomic performance.

The study of economics can be divided into two:

Macroeconomics

considers aggregate behaviour, and the study of the sum of individual economic decisions.

Microeconomics

is the study of the economic behaviour of individual consumers, firms and industries.

Business Activity in the Economy

The economy is rarely in a stable state because of the various changing factors which influence it

An interesting factor is the multiplier.

A multiplier is basically a factor of proportionality that measures how much an X variable changes in response to a change in some Y variable.

Determinants of the level of Business Activity

1. ### Confidence

When consumers are confident, they tend to demand more whilst higher business confidence results in higher investment.

Confidence is generally put at a threat when there is political instability, disasters, unemployment and high inflation.

2. ### Aggregate Demand

- ### AD = C + I + G + X – M

- **AD** – Aggregate Demand
- **C** – Consumer Spending
- **I** – Investment by firms
- **G** – Government Spending
- **X** – Demand for exports
- **M** – Imports
- ### Balance of Payments

Under the current method of presentation of the UK balance of payments statistics, **current account** transactions are sub-divided into four parts.

- Trade in goods
- Trade in services
- Income
- Transfers.

- When journalists on economists speak of the balance of payments they are usually referring to the deficit or surplus on the current account.

The government of a country with a balance of payments deficit will usually be expected to take measures to reduce or eliminate the deficit by one or more of the following measures:

- A depreciation of the currency known as devaluation
- Direct measures to restrict imports, such as tariffs or import quotas or exchange control regulations
- Domestic deflation to reduce aggregate demand in the domestic economy

The first two are **expenditure switching** policies which transfer resources and expenditure away from imports and towards domestic products while the last is an **expenditure reducing** policy.

3. ### Capital

If firms raise their finance it will result in higher levels of investment.

Lower interest rates will make capital cheaper.

4. ### Use of Resources

Advancements in technology results in efficient work practices and can improve productivity.

A well-educated work force can also result in better and more productive work.

5. **Government Policy**

Government can affect aggregate demand through fiscal policy (the blend of government spending and taxation).

If Government spending increases then the overall aggregate demand will increase

6. **Exchange Rate Movements**

A strengthening currency will make exports of a particular country more expensive and in that case imports will result to be cheaper.

What are the impacts of having an appreciating (strengthening) currency?

1. **Exports are hurt.**

Most developing countries have economies based largely on exports that are competitive in global markets because of low prices.

A case in point nowadays is China.

When those countries' currency gains in value, they are no longer able to offer exports to the global market at the same low prices that they planned to.

This may cause importers (of other countries) to look elsewhere, to countries with lower valued currency resulting in better prices.

It may also be the case that the importers will start ordering less from the said country having an appreciating currency.

2. **Repatriated profits from a country's international economic activity are hurt.**

Currency appreciation at home means that money made elsewhere won't stretch as far in supporting the domestic economy

Economic Issues

The impact of economic issues on the individual, the household and the business

Inflation

The inflation rate is the percentage rate of increase in the economy's average level of prices.

A high inflation rate means that prices on average are rising rapidly, while a low inflation rate means that prices on average are rising slowly.

In inflationary periods, retired people or those about to retire are those of the biggest losers since their hard-earned savings will buy less and less as prices go up.

While a high inflation rate harms those who have saved in the past, it helps those who have borrowed.

It is this capricious aspect of inflation, taking from some and giving to others, that makes people dislike inflation.

People want their lives to be predictable, but inflation throws a monkey wrench into individual decision making, creating pervasive uncertainty.

An **inflationary gap** exists in an economy when aggregate demand (total demand in an economy) is greater than the full employment level of income.

One important measure of the general rate of inflation in the UK used over many years has been the **Retail Price Index (RPI)**.

The RPI measures the percentage changes month by month in the average level of prices of the commodities and services, including housing costs, purchased by the great majority of households in the UK.

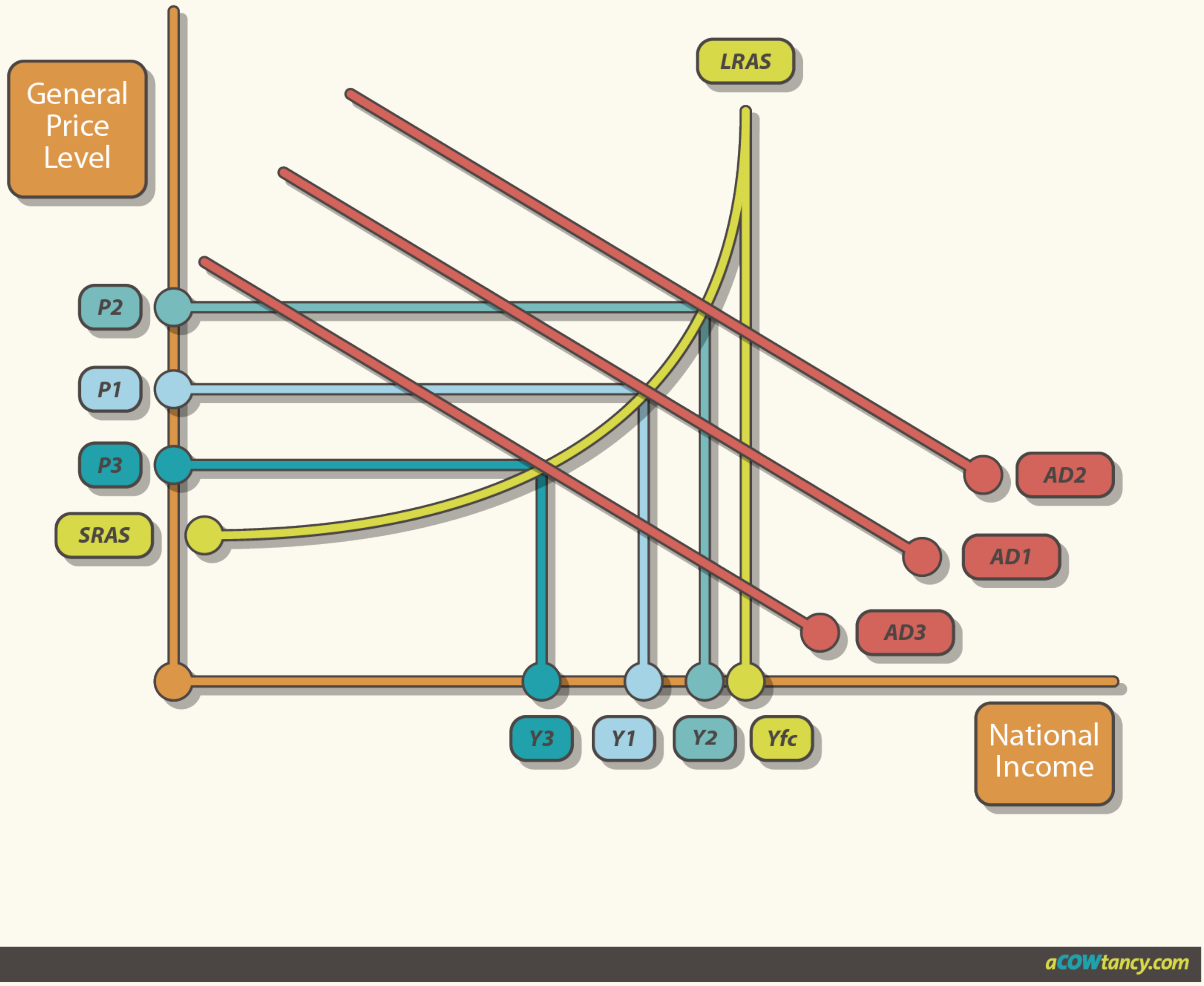
The items of expenditure within the RPI are intended to be a representative list of items, current prices for which are collected at regular intervals.

Causes of inflation

Demand pull inflation

> Demand pull inflation arises from excess demand over productive capacity of the economy.
>
> It is a situation when demand exceeds supply and prices rise.
>
> Demand pull inflation only exists when unemployment is low.
>
> Considering the case scenario in the graph below, P1, that is price 1 was the original price when national income was Y1.
>
> When demand pull takes place, the curve AD1 shifts to AD2 since demand increases (too much money chasing too few goods).
>
> As a result, P1 increases to P2 reflecting inflation and Y1 increases to Y2 reflecting an increase in national income.
>
> When P1 decreases to P3, that means that demand decreased, shifting AD1 to AD3 resulting in a decrease in national income from Y1 to Y3.
>
> In a situation when inflation is rising, demand side policy which is controlled by the government would focus on reducing aggregate demand through tax rise, cuts in government spending and higher interest rates.

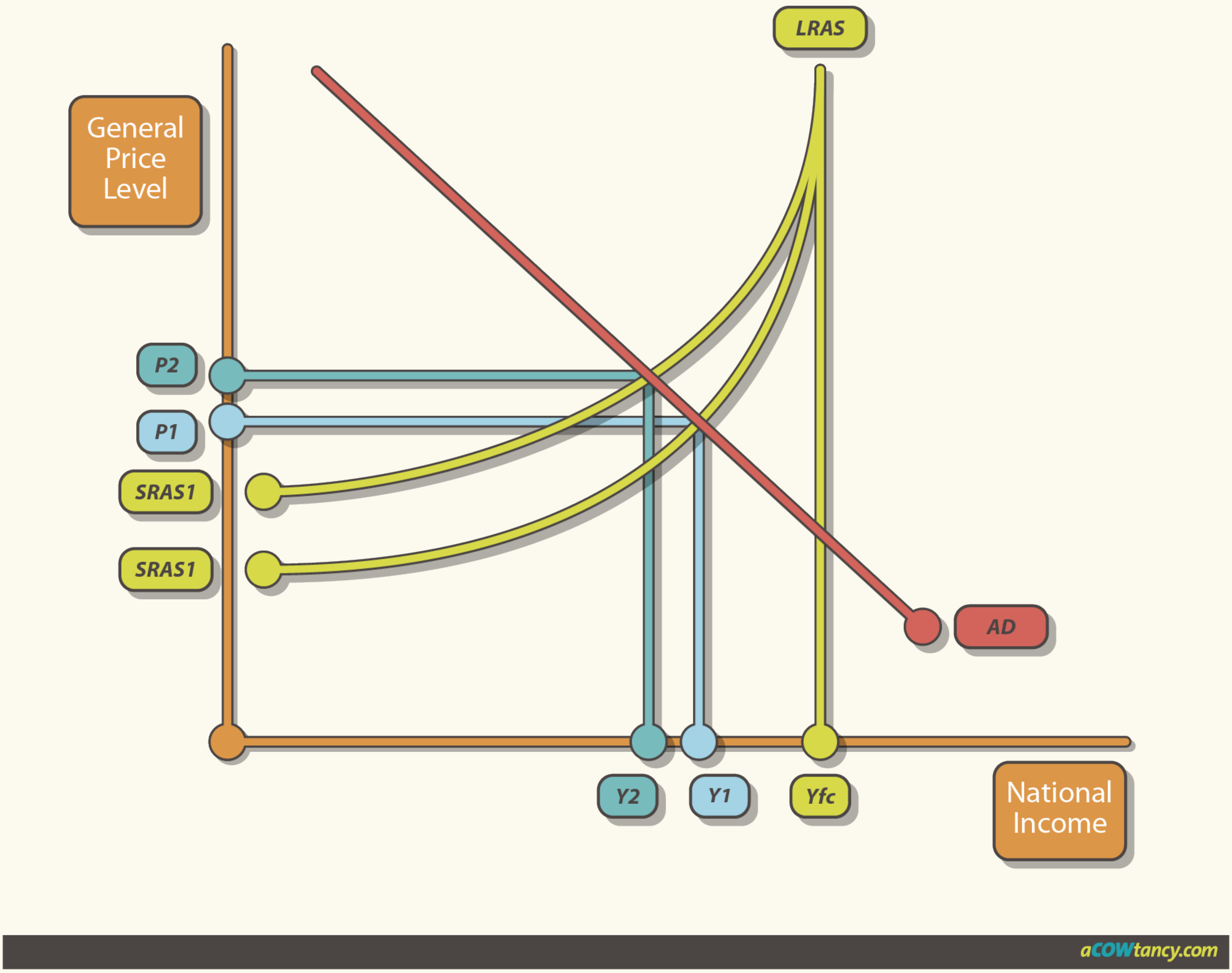
This is done in an effort to regularise inflation to control it from continuing to rise.



Cost-push inflation

This is a result of increases in the costs of production thus short-run aggregate supply (SRAS) shifts from SRAS1 to SRAS2. Its effect leaves an increase in price from P1 to P2.

Thus, this increase in price is in fact inflation. Cost-push inflation arises whether or not there is a demand for supply, for example, an increase in the cost of wages.



Imported inflation

> Cost of import rises regardless of whether there is a high demand for supply, for example, an increase in oil prices.
>
> The same explanation sticks from point no. 2 case scenario.

Monetary inflation

> Monetary inflation means an increase in the supply of money. There is a debate whether an increase in money supply is a cause of inflation or whether an increase in the money supply is a symptom of inflation.
>
> What happens is that the more supply in money, the more people will buy thus demand will increase.
>
> As a result, if this increase in demand occurs faster than the expansion in the supply of goods and services, then, inflation will take place.
>
> Monetarists (supply side view) argue that a good tool to fight such inflation is to decrease the supply of money and increase interest rates.

Expectations effect

Expectations effect

> Once inflation has started to rise, there may be “expectational inflation”, that is, people will start expecting inflation to rise even higher.
>
> A general held view of future inflation therefore, sets for example, wages accordingly.
>
> This is known as the wage-price spiral.

Unemployment

Unemployment rate is the number of jobless individuals who are actively looking for work divided by the total of those employed and unemployed.

The higher the overall unemployment rate, the harder it is for each individual who wants to find work.

Everyone fears a high unemployment since it raises the chances that they will be laid off from their present work, will be unable to pay their bills etc.

A government can try several options to create jobs or reduce unemployment.

1. Spending more money directly on jobs

2. Encouraging growth

3. Encouraging training in job skills

4. Offering grant assistance to employers

5. Encouraging labour mobility

Types of unemployment

category	comments

real wage unemployment	caused when the supply of labour exceeds demand but real wages do not fall. caused by strong trade unions which resist a fall in wages. abolishing (put an end to) closed shop agreements and minimum wage regulations are policies which may be directed at reducing real wage to market clearing levels.
frictional	difficulty in matching quickly workers with jobs. possibly caused by lack of knowledge of job opportunities. usually temporary
seasonal	especially in certain trades as farming etc
structural	occurs during **long-term** change in conditions. for example, a long-term change in a community that relies on one particular industry
technological	a form of structural that occurs then new technology arises.
cyclical or demand-deficient	matches economic climate trends such as boom, decline, recession and recovery. demand for labour fluctuates as demand rises and falls

Stagnation or Stagflation

This is a combination of unacceptably high levels of unemployment and unacceptably high levels of inflation.

During the 1970 in the UK a major rise in the price of crude oil took place.

This meant that the cost of energy rose and therefore rendered some products unprofitable.

National income fell and both prices and unemployment rose. Any long term major increase in costs could have this effect.

International payments Disequilibrium

A “fundamental disequilibrium” exists when outward payments have a continuing tendency not to balance inward payments.

Disequilibrium may occur for various reasons.
Some may be grouped under the head of structural change (resulting from changes in tastes, habits, institutions, technology, etc.).

A fundamental imbalance may occur if wages and other costs rise faster in relation to productivity in one country than they

do in others. Imbalance may also result when aggregate demand runs above the supply potential of a country, forcing prices up or raising imports.

For example, a war may have a profoundly disturbing effect on a country's economy

Economic Policy

THE MAIN TYPES OF ECONOMIC POLICY

Economic policy objectives:

A macro-economic policy relates to economic growth, inflation, unemployment and the balance of payments.

The objectives are:

1. Achieve economic growth
2. Control price inflation
3. Achieve full employment
4. Achieve balance between import and export

THE IMPACT OF FISCAL AND MONETARY POLICY

1. **Fiscal policy (Keynesian view)**

   Fiscal policy (Keynesian view) has to do with the government's decisions about spending and taxes.

   This provides a method of managing aggregated demand in the economy.

   There are several elements to the fiscal policy and that of the budget:

- **Expenditure**

  The government spends money both nationally and regionally on such things as health services, educational, roads, policing.

  It also provides commercial incentives to the private sector through grants.
- **Revenues**

  To spend the money on public services the government needs an income.

  The majority of the income comes from taxes although some come from direct charges like National Health Service charges.

  A **regressive tax** takes a higher proportion of a poor person's salary than a rich person's.

  Example - road tax.

  A **proportional tax** takes the same proportion of income in tax from all levels of income.

  A **progressive tax** takes a higher proportion of income in tax as income rises. Example – Income tax.
- **Borrowing**

  Should a governments' spending exceed its income then it must borrow.

  The amount it must borrow is known as the **PUBLIC SECTOR NET CASH REQUIREMENT (PSNCR)**.

  This has a profound effect of the fiscal policy as a whole.

2. Budget Surplus and Budget Deficit

Should the government use its fiscal policy to influence demand in the economy then it needs to choose either expenditure changes or tax changes, as its policy instruments, or a combination of both. **The government could:**

Increase demand by directly spending more itself, for example, future investment and spending on the health service or employing more people. If the government was to influence demand by spending more, this would have to be financed either through increasing taxes or borrowing. However, by increasing taxes, organisations, households and individuals would have less to spend.

Increase demand indirectly by reducing taxation - Tax cuts are often followed by cuts in government spending. Therefore, total demand will not be stimulated within the economy. Again, tax cuts could also be funded by an increase in government borrowing. Should the government decide to lower tax then organisations, households and individuals would have more money after tax thus have the ability to spend more.

When the government is running a **budget deficit** it means that total public expenditure exceeds revenue. As a result, the government has to borrow through the **issue of government debt**.

If the government sector is taking in more revenue than it is spending, there is a **budget surplus** allowing the government to repay some of the accumulated debt, of perhaps cut the **burden of tax** or raise **government expenditure**.

3. Monetary Policy

Monetary Policy looks at the supply of money, the monetary system, interest rates, exchange rates and the availability of credit.

All of which are highly important to organisations, households and individuals. Businesses can be affected by governments' taxation policies outlined within the fiscal policy AND equally affected by high interest rates set out within the monetary policy.

In the UK, the ultimate objective of monetary policy in recent years has been principally to reduce the rate of inflation to a sustainable low level.

The intermediate objectives of monetary policy have related to the level of interest rates, growth in the money supply, the exchange rate of sterling, the expansion of credit and the growth of national income.

4. Money Supply within the Monetary Policy (Moneterists view)

This is an intermediate target and should be seen as a **medium term target**.

The argument is that by increasing money supply this will raise prices and incomes and this will increase the demand for money to spend.

There are however three short-term unpredictable effects:

- May cause erratic (sudden) interest rates
- Time lag. It takes time to cut government spending!
- Time lag before control over money supply alters expectations

5. Interest Rates within the Monetary Policy

There are suggestions that there is a direct relationship between interest rates and the levels of expenditure in the economy or put simply, between interest rates and inflation.

A rise in interest rates will raise the price of borrowing.

This could lead to a reduction in investments through the economy should organisations perceive the high rate to be relatively permanent.

Profits would fall due to higher borrowing rates and organisations may have to consider a reduction in inventory levels.

For individuals, there is less likelihood of borrowing for house purchases.

A strong reason for pursuing an interest rate policy is that it can be implemented rapidly compared to other target policies.

6. The Exchange Rate within the Monetary Policy

There are few reasons why the exchange rate plays an important part of the monetary policy

- If exchange rates fall, exports become cheaper to overseas buyers and so more competitive in export markets. However, imports will become more expensive.

  Therefore, a fall in exchange rates might be good for a domestic economy, by giving a stimulus to exports and reducing demand for imports.
- An increase in exchange rates will have the opposite effect, with dearer exports and cheaper imports. If this happens, there should be a reduction in the rate of domestic inflation.

  However, the opposite would happen with a fall in exchange rates therefore, adding to the rate of domestic inflation.

  Rates of domestic inflation need to be controlled prior to introducing a robust target for the exchange rates due to some country's being heavily dependent on overseas trade

7. **Monetary & Fiscal Policy**

Monetary policy can act as a subsidiary to fiscal policy. As a budget is usually a once a year event, the government may need to use non-fiscal measures to control the economy.

These are typically:

- Low interest rates or lack of credit control to stimulate bank lending
- High interest rates to stop bank lending
- Strict credit control to reduce lending and reduce demand on the economy

Supply-side economic policies are mainly designed to improve the supply-side potential for an economy, make markets and industries operate more efficiently and thereby contribute a faster rate of growth of real national output. There are two broad approaches to the supply-side.

Firstly policies focused on product markets where goods and services are produced and sold to consumers and secondly the labour market is bought and sold.

Micro Economics Factors

Demand & Supply of Goods & Services

THE CONCEPT OF DEMAND AND SUPPLY FOR GOODS AND SERVICES

Microeconomics

Microeconomics looks into the individual people and firms within the economy.

It tends to be more scientific in its approach than macro economics.

Analyzing certain aspects of human behavior (including groups and organizations that have a two-way operation relationship with the business), microeconomics shows how individuals and firms respond to changes in price and why they demand what they do at particular price levels.

An organisation's micro environment consists of itself and its current and potential customers, suppliers and intermediaries.

The competition also has a key influence on the micro environment.

The 5 M's refer to inputs that an organisation requires in order to function. They are:

1. Materials
2. Money
3. Men (human resources)
4. Machines
5. Management

Utility is the word used to describe the satisfaction or benefit a person gets from the consumption of goods.

Total utility is the total satisfaction that people derive from spending their income and consuming goods.

Marginal utility is the satisfaction gained from consuming one additional unit of a good or the satisfaction forgone by consuming one unit less.

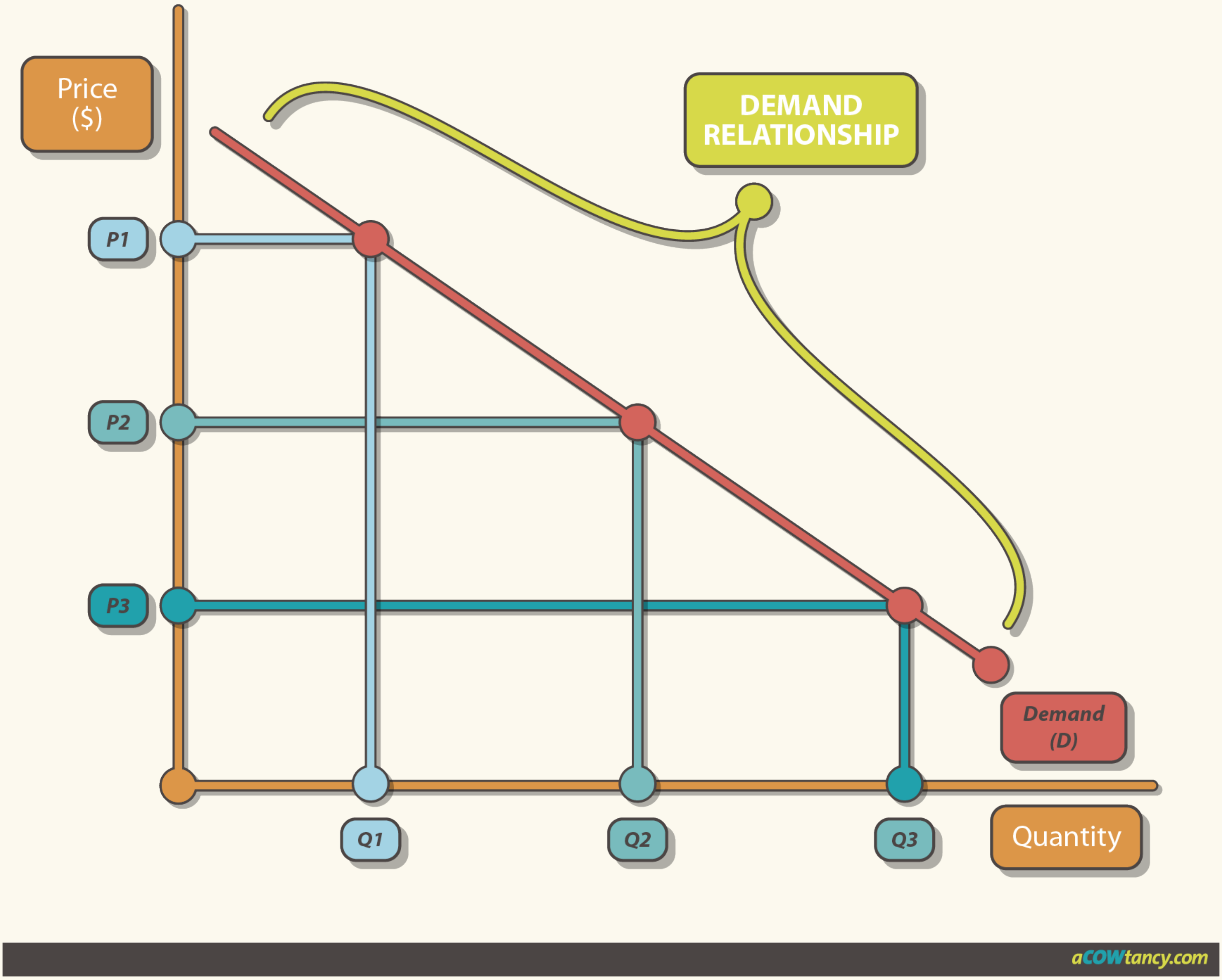
Demand for goods and services

Five main variables influence the quantity of each product that is demanded by each individual consumer:

1. **The price of the product** – creates a movement in the demand curve
2. **The prices of other products** – creates a shift in the demand curve
3. **The consumer's income and wealth** – creates a shift in the demand curve
4. **Various sociological factors** – creates a shift in the demand curve
5. **The consumer's tastes** – creates a shift in the demand curve

A basic economic hypothesis is that the lower the price of a product, the larger the quantity that will be demanded, other things being equal.

This in fact reflects a downward sloping curve as in below diagram.



A, B and C are points on the demand curve.

Each point on the curve reflects a direct correlation between quantities demanded (Q) and price (P).

So, at point A, the quantity demanded will be Q1 and the price will be P1, and so on.

The demand relationship curve illustrates the negative relationship between price and quantity demanded.

The higher the price of a good the lower the quantity demanded (A), and the lower the price, the more the good will be in demand (C).

Supply for goods and services

Four major determinants of the quantity supplied in a particular market are:

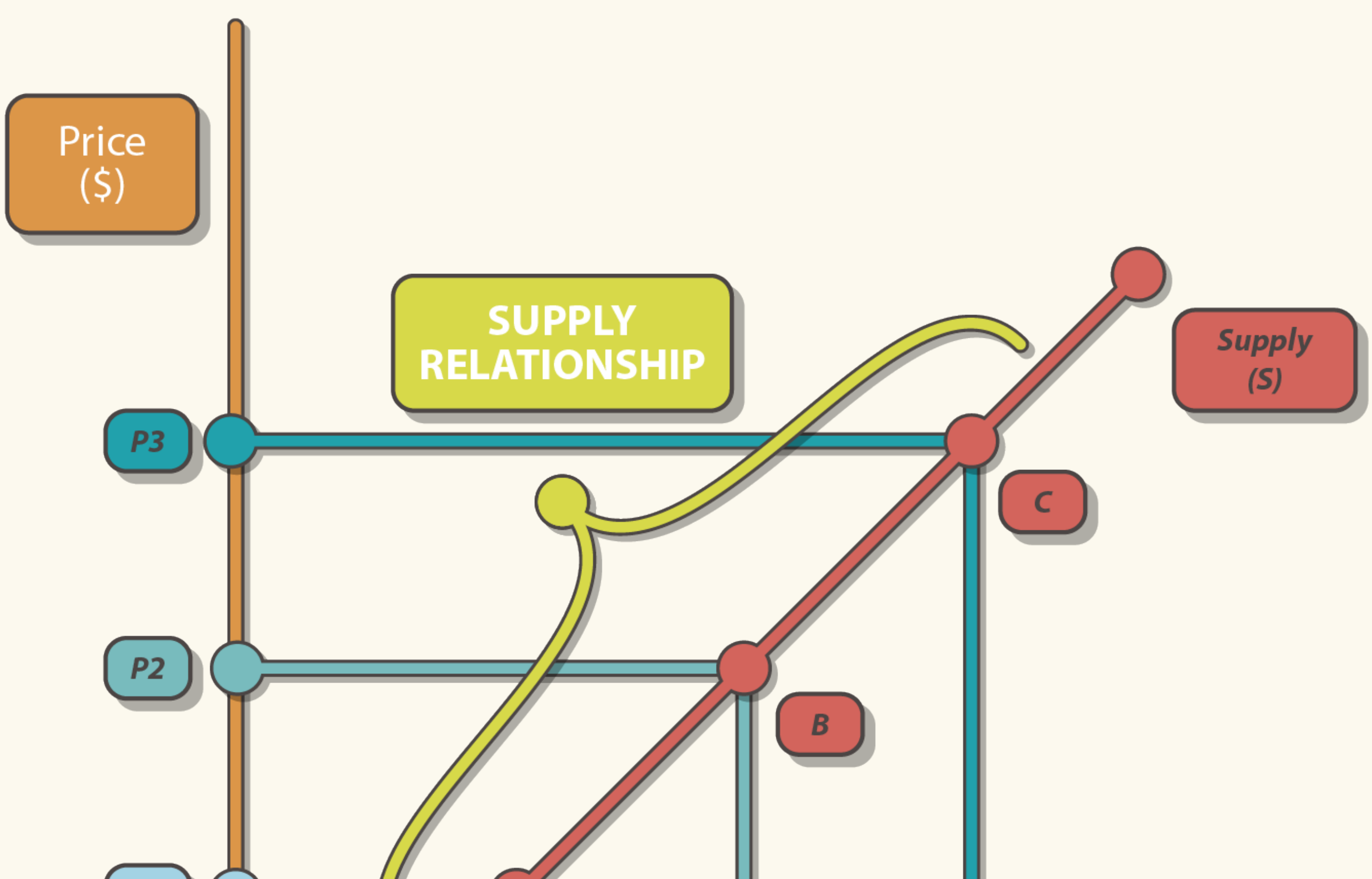
1. **The price of the product** – creates a movement in the supply curve
2. **The prices of factors of production** – creates a shift in the supply curve
3. **The goals of producing firms** – creates a shift in the supply curve
4. **The state of technology** – creates a shift in the supply curve

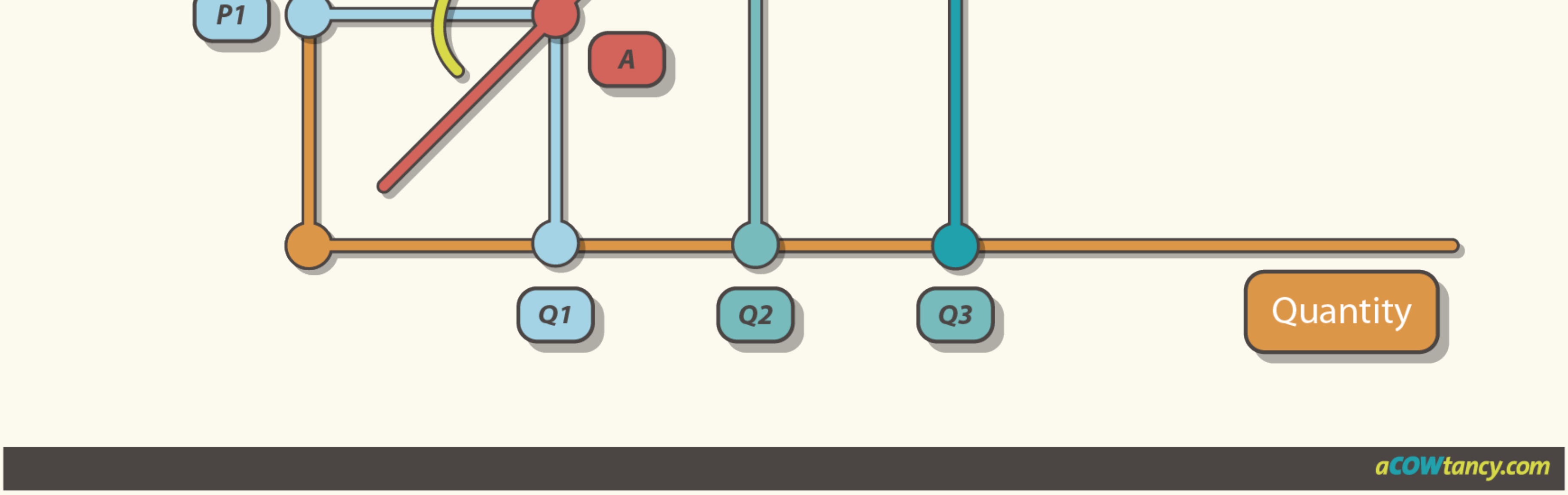
The amount of a product that firms are able and willing to offer for sale is called quantity supplied.

Supply is a desired flow; how much firms are willing to sell per period of time, not how much they actually sell.

The quantity of any product that firms will produce and offer for sale is positively related to the product's own price, rising when price rises and falling when price falls.

This in fact reflects an upward sloping curve as in below diagram.





A, B and C are points on the supply curve.

Each point on the curve reflects a direct correlation between quantities supplied (Q) and price (P).

At point B, the quantity supplied will be Q2 and the price will be P2, and so on.

Equilibrium

> When supply and demand are equal (i.e. when the supply function and demand function intersect) the economy is said to be at equilibrium.
>
> At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded.
>
> Thus, everyone is satisfied with the current economic condition.
>
> At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.

Elasticity of Demand

ELASTICITY OF DEMAND AND THE IMPACT OF SUBSTITUTE AND COMPLEMENTARY GOODS

Price Elasticity of Demand

If Pizza Hut raises its prices by ten percent, what will happen to its revenues?

The answer depends on how consumers will respond. Will they cut back purchases a little or a lot?

This question of how responsive consumers are to price changes involves the economic concept of elasticity.

> The most common elasticity measurement is price elasticity of demand.
>
> It measures how much consumers respond in their buying decisions to a change in price.
>
> Price elasticity of demand (PED) is a measure of the extent of change in the market demand for a good in response to a change in its price.

The coefficient of PED is measured as:

Percentage change in quantity demanded / Percentage change in price

> Since demand usually increases when the price falls, and decreases when the price rises, elasticity has a negative value.
>
> However it is usual to ignore the minus sign and just describe the absolute value of the coefficient.
>
> If we are measuring the responsiveness of demand to a large change in price, we can measure elasticity between two points on the demand curve, and the resulting measure is called the arc elasticity of demand.

Example

Annual demand at €1.10 per unit is 700,000 units.
Annual demand at €1.20 per unit is 650,000 units.
Average quantity over the range is 675,000 units.
Average price is €1.15.

> % change in demand = 50,000 / 675,000 x 100% = 7.4%
>
> % change in price = 10c / 115c x 100% = 8.7%
>
> Price elasticity of demand = -7.4 / 8.7 = -0.85

Demand is INELASTIC over the demand range considered, because the price elasticity of demand (ignoring the minus sign) is less than 1.

Price elasticity of demand is considered to be elastic.

When the answer is greater than 1 (ignore the minus sign).

Factors that determine the value of price elasticity of demand

1. **Number of close substitutes within the market**

   The more (and closer) substitutes available in the market the more elastic demand will be in response to a change in price.

   In this case, the substitution effect will be quite strong

2. **Luxuries and necessities**

   Necessities tend to have a more inelastic demand, whereas luxury goods and services tend to be more elastic.

   For example, the demand for cinema tickets is more elastic than the demand for bus travel.

   The demand for vacation air travel is more elastic than the demand for business air travel.

3. **Percentage of income spent on a good**

   It may be the case that the smaller the proportion of income spent, taken up with purchasing the good or service, the more inelastic demand will be.

4. **Habit forming goods**

   Goods such as cigarettes and drugs tend to be inelastic in demand.

   Preferences are such that habitual consumers of certain products become desensitized to price changes.

5. **Time period under consideration**

   Demand tends to be more elastic in the long run rather than in the short run.

Income elasticity of demand

> Income elasticity of demand = % change in quantity demanded / % change in income

Demand for a good is income elastic if income elasticity is greater than 1 and it is inelastic between 0 and 1.

Goods whose income elasticity of demand is positive are said to be NORMAL GOODS, meaning that demand for them will rise when household income rises.

If income elasticity is negative, the commodity is called an INFERIOR GOOD since demand for it falls as income rises.

Cross elasticity of demand

Cross elasticity involves a comparison between two products.

The concept is a useful one in the context of considering substitutes and complementary products.

> Cross elasticity of demand = % change in quantity demanded of good A / % change in the price of good B

cross elasticity	value
perfect complements	-1
complements	-ve
unrelated products	0
substitutes	+ve
perfect substitutes	+1

Economic Behaviour of Costs

THE ECONOMIC BEHAVIOUR OF COSTS IN THE SHORT AND LONG TERM

Short vs Long run

1. The short run is a period of time in which the quantity of at least one input is fixed and the quantities of the other inputs can be varied.

2. The long run is a period of time in which the quantities of all inputs can be varied.

There is no fixed time that can be marked on the calendar to separate the short run from the long run.

The short run and long run distinction varies from one industry to another."

Long run

In the long run, firms change production levels in response to (expected) economic profits or losses, and the land, labour, capital and entrepreneurship (factors of production) vary to reach associated long-run average cost.

The long run is associated with the long run average cost (LRAC) curve in microeconomic models along which a firm would minimize its average cost (cost per unit) for each respective long-run quantity of output.

Long run marginal cost (LRMC) is the added cost of providing an additional unit of commodity from changing capacity level to reach the lowest cost associated with that extra output.

The concept of long-run cost is also used in determining whether the long-run is expected to induce the firm to remain in the industry or shut down production.

The long run is a planning and implementation stage. Here a firm may decide that it needs to produce on a larger scale by building a new plant or adding a production line.

The firm may decide that new technology should be incorporated into its production process.

The firm thus considers all its long-run production options and selects the optimal combination of inputs and technology for its long-run purposes.

Long-run decisions are risky because the firm must anticipate what methods of production will be efficient, not only today, but also for many years in the future, when the costs of labour and raw materials will no doubt have changed.

The decisions are also risky because the firm must estimate how much output it will want to product.

Is the industry to which it belongs growing or declining?

Will new products emerge to render its existing products less useful than an extrapolation of past sales suggest?

Short run

Once the decisions are made and implemented and production begins, the firm is operating in the short run with fixed and variable inputs.

The short run is the conceptual time period in which at least one factor of production is fixed in amount and others are variable in amount.

Costs that are fixed, say from existing plant size, have no impact on a firm's short-run decisions, since only variable costs and revenues affect short-run profits.

In the short run, a firm can raise output by increasing the amount of the variable factor(s), say labour through overtime.

Perfect, Imperfect and Monopolistic Markets

Competitive Markets

Perfect Competition

Perfect competition is characterised by many buyers and sellers, many products that are similar in nature and, as a result, many substitutes.

Perfect competition means there are few, if any, barriers to entry for new companies, and prices are determined by supply and demand.

Thus, producers in a perfectly competitive market are subject to the prices determined by the market and do not have any influence.

For example, in a perfectly competitive market, should a single firm decide to increase its selling price of a good, the consumers can just turn to the nearest competitor for a better price, causing any firm that increases its prices to lose market share and profits.

Imperfect Competition

Imperfect competition is when a firm has too much control over the market of a particular good or service and can therefore charge more than its real market value.

When the market for a certain good or service does not have a lot of competitors, the few firms control the market.

Monopolistic Competition

Monopolistic competition refers to a market structure that is a cross between the two extremes of perfect competition and monopoly.

The model allows for the presence of increasing returns to scale in production and for differentiated (rather than homogeneous or identical) products.

However the model retains many features of perfect competition, such as the presence of many firms in the industry and the likelihood that free entry and exit of firms in response to profit would eliminate economic profit among the firms.

As a result, the model offers a somewhat more realistic depiction of many common economic markets.

The model best describes markets in which numerous firms supply products which are each slightly different from that supplied by its competitors.

Examples include automobiles, toothpaste, furnaces (ovens), restaurant meals, motion pictures, romance novels, wine, beer, cheese, shaving cream and many more.

Social and Demographic Factors

Social & Demographic trends

EFFECTS ON BUSINESS OUTCOMES AND THE ECONOMY

Key social and demographic issues include:

1. population
2. wealth
3. education and training
4. health
5. social structure, attitudes, values and tastes

1. ### Population

   What causes population to grow?

- Higher birth rates
- Lower rates of death
- Immigration

Due to improvement in technology and in particular the pharmaceutical area a lower rate of death is resulting during the years. Also, education about nutrition helped in extending the life expectancy for both males and females.

There is an improvement in the general social conditions like the conditions of housing (or shelter).

A growing population offers a larger labour market or "workforce".

Therefore an increase in modern day birth rate would mean younger people within the workforce such as in the case of Ireland.

This is compounded by a falling death rate and more elderly people continuing to work.

2. ### Wealth

   Economic growth often results in higher disposable incomes with the knock an effect of greater demand for (most) products.

   The four fastest growing economies in the world are the "BRIC" -

- Brazil
- Russia
- India
- China

3. ### Education and Training

An educated workforce is a key driver of economic growth, e.g. in China 99% of the youth population in now literate compared to 70% in the 1980s.

Increasing standards of education and greater access to IT have made the internet a major channel for selling and advertising.

4. **Health**

In many western countries the population is becoming increasingly overweight. This places greater demands on healthcare providers.

More than 12% of South Africans are infected by HIV. South Africa's declining life expectancy (currently 51 years) is a major concern, especially as the population structure has changed with fewer people in their middle ages.

This is normally the most economically active and skilled group who support the elderly and younger groups.

5. **Social structure, attitudes, values and tastes**

    1. Many countries are finding the demand for housing growing faster than the population
    2. An increasing concern about the ozone layer, testing on animals
    3. Many women are back to work
    4. Changes in public attitudes towards recycling have resulted in opportunities for recycling firms
    5. Changes in tastes and fashions can have a damaging effect on organisations that fail to anticipate the changes

Social structure, Values, Attitudes and Tastes

Impact of Organisations:

topic	**impact**
health & diet	* growing market for sports related goods * employee health programmes * new food - added vitamins etc * demand for organic foods
women in work	* increase in part-time roles * the sex discrimination act * equal pay & value

	* promotion & seniority * equal opportunities
environmental	* media coverage fuels public concern * world disaster = public attention

The Business Response

business agenda	**response**
green products	exploit ecological friendliness as a marketing tool
change working practices	knowledge leads to consumer strength. bad publicity has led to improvements
limits	there may be limits to how much consumers will change their lifestyles
education & confusion	consumers wrongly educated
environmental impact assessments	review process and finished product

Measurements taken by Government

MEDIUM AND LONG-TERM IMPACT OF DEMOGRAPHIC CHANGE

Measures undertaken by Governments

Governments of countries with low birth rates often introduce tax advantages and other financial incentives to encourage women to have more children.

This is the case scenario in Singapore for example.

Another common policy is to encourage immigration. Both Canada and Australia have been promoting this for over a decade.

Governments in countries with rapidly rising populations often put in place policies to discourage large families, e.g. the “one child” policy adopted by China.

The increasing percentage of the population aged over 65 is creating a pensions crisis in many countries.

The main concern is that the taxes received from a smaller proportion of workers will be insufficient to meet the pension demands of a growing retired population without huge increases tax rates.

Typical government responses include rising the retirement age and encouraging private and occupational pension schemes.

The percentage of single-parent families in the UK rose from 7% in 1971 to 23% in 2005.

The UK government has focused on enabling single parents to return to work through a mixture of childcare vouchers and tax credits.

Among others this has created extra demand for childcare services and after-school clubs.

Concerns over the effects of smoking have resulted in bans on tabacco advertising on television in many countries and the ban from smoking in public in-door areas.

Concerns over obesity are giving rise to increasing pressure on government to legislate in a similar way in the fast food industry.

In the South Africa the government has put in place many initiatives to raise awareness to AIDS and sexual health.

The global community is under greater pressure to provide cheap drugs to help.

Technological Factors

Technological Change

ORGANISATION STRUCTURE AND STRATEGY

A change in technology has had a major impact on the structure and strategy of organisations.

This has encouraged the flattening of organisational hierarchies and offering a wider span of control.

More and more companies are “empowering” employees or outsourcing, cutting out the need for middle management

DOWNSIZING

Downsizing is the term used to refer to a situation when a company is reducing the number of employees without necessarily reducing the work or output.

DELAYERING

Many organizations have recently been delayering. Middle line jobs are reducing.

Organizations are increasing the average span of control, reducing management levels and becoming flatter. Why?

Information technology reduces the need for middle managers to process information.

Empowerment - Many organisations, especially service businesses, are keen to delegate authority down the line to the lowest possible level.

Front line workers are allowed to take decisions, which is often the best way to stay flexible and responsive to customer demands.

OUTSOURCING

Outsourcing has to do with contracting out specific operations or services to an external vendor. Outsourcing can help remove the uncertainty of costs and replace it with a fixed price.

It encourages planning as many of the outsourced contracts are long-term. It also can benefit from economies of scale.

An outsourcing organisation can also share staff and expertise between clients. It also gives both companies lots of flexibility.

Outsourcing can work on a project basis, for example a marketing company or PR organisation helping to launch a particular product.

There are however, certain drawbacks of outsourcing that have to be measured against the potential gains:

Confidentially of information or techniques

Competitive advantage

Locked into an unsatisfactory contract

Lethargy (not very productive) towards cost implications

Information Technology & Information sytems

Effects of IT and Information Systems on Business Processes

routine processing	increase in volume, speed and accuracy
digital information & record keeping	people like to print stuff out! managers have access to more information more detailed planning is possible information for control possible better decision making due to better information
news skills/ways of working	employees to utilise it new systems require new ways of working
technological	commits an organisation to continual change
customer service	database, website etc = better customer service
information markets	organisations have had to look upon information as a commodity and to look more closely at how this affects their business
developments in communication	improvements and developments in communication are having a huge impact on businesses. email is quick and efficient, voice mail allows flexibility,

	technology can route incoming calls and personalise communication. computer conferencing encourages communication and video conferencing improve face to face contact and reduce travel costs
it & the employee/ employer relationship	there's a reduced need to follow chains of command information overload nature of work close business relationship regardless of location flexible working arrangements greater monitoring and control these are the same issues that are affected during downsizing due to developments in communications

Types of Information Technology and Systems

Information Systems and Technologies

Information systems and **technologies** have become vital components of successful businesses and organisations.

An information system is an organised combination of people, hardware, software, communications networks and data resources that collects, transforms and disseminates information in an organisation.

Information systems provide an organisation with support for business operations, managerial decision making and strategic advantage.

Electronic data processing, transaction processing system and management information system

Until the 1960s, the role of information systems was simple transaction processing, record-keeping, accounting and other **electronic data processing (EDP)** applications or **transaction processing system (TPS)**.

Then, another role was added, as the concept of **management information systems (MIS)** was conceived.

This new role focused on providing managerial end users with predefined management reports that would give managers the information they needed for decision-making purposes.

Decision support systems

By 1970s, it was evident that the prespecified information products produced by such management information systems were not adequately meeting many of the decision-making needs of management.

So the concept of **decision support systems (DSS)** was born.

The new role for information systems was to provide managerial end users with ad hoc and interactive support of their decision-making processes.

This support would be tailored to the unique decision-making styles of managers as they confronted specific types of problems in the real world.

Executive information systems, expert support systems and knowledge-based systems

In the 1980s, several new roles for information systems appeared.

It became evident that most top executives did not directly use either the reports of information reporting systems or the mathematical analytical modeling capabilities of DSS, so the concept of **executive information systems (EIS)** was developed.

These information systems attempt to give top executives an easy way to get the critical information they want, when they want it, tailored to the formats they prefer.

Expert support systems (ESS) and other **knowledge-based systems** forged a new role for information systems.

Today, expert systems can serve consultants to users by providing expert advice in limited subject.

Finally, the rapid growth of the Internet, intranets, extranets in the 1990s has dramatically changed the capabilities of information systems in business.

Such global internet work is revolutionising and supporting business operations and management of different enterprises.

Sources of Internal and External Information

Information can be gathered either via internal or external sources

1. **Internal Information**

- **A system needs to be devised to gather this information. The types of internal information could be:**
- Accounting Records
- HR & Personnel Information
- Payroll
- Production Information
- **The system should take into account such things as:**
- What data/information?
- When?
- By who?
- What method?
- Process, filed and communicated?

2. **External Information**

External information is gathered via a **formal or informal** collection of data from outside sources.

For example a **formal process** would read something like this:

A companies HR department should gather information regarding changes in employment law or indeed a marketing manager should periodically assess the external market through market research etc to ensure all information is gathered to make an informed decision.

3. **Informal Information**

Informal information gathering occurs naturally as employees become aware of the environment around them.

Features of Information Systems

Level Systems

1. **Strategic Level Systems**

1. **Strategic Level Systems**

- **Executive Support Systems (ESS)**

  Pools data from internal and external sources and helps form a strategic picture. Needs flexibility, the ability to provide a quick response and to analyse data.

2. **Management Level Systems**

- **Management Information Systems (MIS)**

  Converts mainly internal information and provides reports that enable managers to make appropriate decisions. Needs to support structured decisions, report on existing operations, internal focus and be relatively inflexible.
- **Decision Support System (DSS)**

  Combines data and analytical models or data analysis tools to support decision making. Needs flexibility, be user-friendly and offer alternatives.

3. **Knowledge Level Systems**

- **Knowledge Work Systems (KWS)**

  Integrate new knowledge into an organisation.
- **Office Automation Systems (OAS)**

  Designed to increase the productivity of data and information workers. These include email, word processing etc.

4. **Operational Level Systems**

- **Transaction Processing Systems (TPS)**

  Performs and records routine transactions. For example, Sales orders, purchasing orders, payroll, registration etc.

Environmental Factors

Economic Sustanability

BENEFITS TO A RANGE OF STAKEHOLDERS

Economic sustainability is the term used to identify various strategies that make it possible to utilise available resources to best advantage.

The idea is to promote usage of those resources that is both efficient and responsible, and likely to provide long-tem benefits.

In the case of a business operation, economic sustainability calls for using resources so that the business continues to function over a number of years, while consistently returning a profit.

Economic sustainability forces a company to look on the internal and external implications of sustainability management.

This means that managing economic sustainability must consider:

- the financial performance of a company;
- how the company manages intangible assets;
- its influence on the wider economy; and
- how it influences and manages social and environmental impacts

There is some consensus that sustainability is desirable for individual businesses to prevent the devastating and inefficient impacts of corporate premature death, and to enable and protect social and environmental initiatives, which tend to be the product of more mature businesses.

Economic sustainability can be seen as a tool to make sure the business does have a future and continues to contribute to the financial welfare of the owners, the employees, and to the community where the business is located.

Physical Environment

ENVIRONMENTAL CONDITIONS

A country's territorial size, geographical location, natural resources, climate, rivers, lakes and forests constitute its physical environment.

Businesses are mainly concerned with either systematic change in environmental conditions such as global warning or result of sudden and unexpected natural events such as floods, storms and earthquakes.

What is important for businesses is to realise that business behavior must be adjusted to expected variations in physical conditions.

Just as companies successfully operate within an envelope of changing economic conditions (economic growth, inflation, unemployment) so they operate within an envelope of varying physical conditions.

Businesses can mainly affect or be affected by the following:

- Air pollution (emissions from industries)
- Water pollution (discharges from industries
- Soil pollution (when waste is disposed ruthlessly it damages the soil)
- Global warning
- Ozone Depletion (the ozone layer protects the entry of harmful ultraviolet rays from corning to the earth)

Efficient and effective Ways

WAYS TO LIMIT DAMAGE TO THE ENVIRONMENT

- Store and handle hazardous substances safely
- Prevent water pollution from site drainage
- Separate hazardous waste from other waste types
- Store and transport waste in suitable containers such as skips
- Avoid causing a nuisance (irritation) from dust or noise emissions
- Use an environment management system (An EMS will help the business manage and control its activities, including emissions and discharges, resource use, and waste in a planned way)

Competitive Factors

SWOT Analysis

What is SWOT Analysis?

SWOT analysis is a basic, straightforward model that provides direction and serves as a basis for the development of plans.

It accomplishes this by assessing an organisation’s strengths (what an organisation can do) and weaknesses (what an organisation cannot do) in addition to opportunities (potential favorable conditions for an organisation) and threats (potential unfavorable conditions for an organisation).

SWOT analysis is an important step in planning and its value is often underestimated despite the simplicity in creation.

Strengths and Weaknesses

A manager must begin to think in terms of what the firm can do well and where it may have deficiencies.

Strengths and weaknesses exist internally within a firm, or in key relationships between the firm and its customers.

SWOT analysis must be customer focused to gain maximum benefit.

Strength is really meaningful only when it is useful in satisfying the needs of a customer. At this point, the strength becomes a capability.

When writing down strengths, it is imperative that they be considered from both the view of the firm as well as from the customers that are dealt with.

These strengths should be realistic and not modest.

Weaknesses should also be considered from an internal viewpoint. It is important that listing of a firm’s weaknesses is truthful so that they may be overcome as quickly as possible.

Delaying the discovery of weaknesses that already exist within a company will only further hurt the firm.

Opportunities and Threats

> Managers who are caught up in developing strengths and capabilities may ignore the external environment.
>
> A mistake of this magnitude could lead to an efficient organisation that is no longer effective when changes in the external environment prohibit the firm’s ability to deliver value to its targeted customer segments.
>
> These changes can occur in the rate of overall market growth and in the competitive, economic, political/legal, technological, or socio-cultural environments

The main sources of Competitive Advantage

Competitive advantage occurs when an organisation acquires or develops an attribute or combination of attributes that allows it to outperform its competitors.

Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market.

Some of the main sources of competitive advantage include:

1. Synergy
2. Effective leadership
3. Teamwork
4. Learning organization
5. Economies of scale
6. Differentiation
7. Cost leadership

Activities of an Organisation that effect its competitiveness

Competitive advantage

Competitive advantage or the competitiveness of an organisation can be achieved by the way in which it organises and performs its activities.

Value activities are the activities by which an organisation creates value in its products.

A **Value chain** describes the activities of the organisation that add value to purchased inputs.

Primary activities are those involved in the production of goods or service. Support services supply assistance.

The linkages are the relationships between activities. Managing the value chain, which includes relationships with suppliers, can be a source of strategic advantage over competitors in the industry.

The best way to demonstrate this process is through the example of a restaurant.

> A restaurant has to buy food, cook it and then serve it to customers.
>
> Customers **purchase value**.
>
> A customer compares your product with similar competitors.
>
> The **business creates** value by ensuring their product (food, effective service etc) is either more efficient or that they are providing a unique product or service.

Porter developed his **value chain** to determine whether and how a firm's activities contribute towards its competitive advantage.

activity	**comments**
inbound logistics	receiving, handling and storing inputs to the production system, warehousing, transport, inventory control etc
operations	convert resources into final product. people are also a resource in service industries
outbound logistics	storing the product & distributing products. packaging,

	testing, delivery etc
marketing & sales	information customers about sales, persuading them to buy, advertising, promotions etc
after sales service	installing products, repair, upgrading, spare parts etc
procurement	buying the resources inputs to the primary activities
technology development	product design, improving processes and/or resource utilisation
human resource management	recruiting, training, development and rewarding people
firm infrastructure	planning, finance, quality control, porter believes this can be of great strategic importance for an organisation

Porter's Five Forces Model

LEVEL OF COMPETITIVENESS

Michael Porter

stated that a firm wishing to obtain a competitive advantage over its rivals is faced with two choices:

> **Cost Leadership**
>
> **vs**
>
> **Differentiation OR Degree of Focus**

Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry.

Many market segments in the industry are supplied with the emphasis placed minimising costs.

If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits.

This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers.

Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Example from the car industry – Nissan, Ford, Honda

Differentiation

In a differentiation strategy a firm looks for ways to be unique along some dimensions that are widely valued by buyers.

It selects one or more attributes that buyers perceive as important and uniquely positions itself to meet those needs and it is rewarded for its uniqueness with a premium price.

One can differentiate in design, brand image, customer service.

Example from the car industry – BMW, Jaguar, Mercedes

Focus

A focused strategy chooses a segment or group of segments in the industry and tailors its strategy to serving them at the exclusion of others.

This segment can be a particular buyer group, segment of the product line or geographic market.

There are two variations to this strategy - a cost focus where a firm seeks a cost advantage in its target segment and a differentiation focus where a firm seeks differentiation in its target segment.

The target segments must either have buyers with unusual needs (differentiation focus) or the production and delivery system that best serves the target segment must differ from that of others industry segments.

A cost focus exploits differences in cost behaviour in some segments.

Example from the car industry – Ferrari and Rolls Royce

Porter's 5 forces approach looks in detail at the firm's competitive environment by analysing five forces.

Together these forces determine the overall profit potential of the industry.

Looking at an individual firm, its ability to earn higher profit margins will be determined by whether or not it can manage the 5 forces more effectively than competitors.

1. The threat of new entrants (and barriers to keep them out)

A new entrant into an industry will bring extra capacity and more competition.

The strength of the threat and the new entrant will depend on two things:

- Strength of the **barriers of entry**
- The **response of existing competitors** in the marketplace

2. The threat from substitute products

A substitute product is a good product or service from another industry that satisfies that customer need.

3. The bargaining power of customers

Customers require better quality products and service at a lower price.

By satisfying these, an organisation or industry may force down the profitability of suppliers in the industry.

How strong the customer's position is, depends on a number of factors:

- How much the customer buys
- How critical the product is to the customers business
- Switching costs (switching from one supplier to another)
- Are the products standard items (easily copied?)
- The customers own profitability (low customer profits = lower prices from suppliers)
- Awareness of customers purchasing staff/price awareness
- When the quality of the product is more important to the customer, the customer is less likely to be price sensitive

4. The bargaining power of suppliers

Suppliers are able to exert pressure for higher prices however this depends on several other factors:

1. Are they more than one or two dominant suppliers (charge monopoly prices)
2. The threat of new entrants
3. Whether the supplier has other customers or substitute products
4. Importance of the suppliers product to the customers business
5. Has the suppliers got a differentiated product
6. Are the switching costs too high

5. **The rivalry amongst current competitors**

The intensity of competition within the industry will affect the profitability of the industry.

Competitive actions could be:

- Price competition
- Advertising battles
- Sales promotion campaigns
- Introducing new products
- Improving sales aftercare
- Providing guarantees or warrants

Business Organisation Structure, Functions and Governance

Formal and Informal Business Organisation

Informal Organisation

Organisational Structure

Organisational structure is a pattern of responsibilities showing the **formal** connections between the individuals engaged in the collective activity and the responsibilities of each of them.

The field of organisational structure lends itself to scientific treatment.

Yet, such treatment appeared to have become too formal, bearing the stamp of an engineering approach seeking scientific precision and a logical form!

As a result, there has appeared a countervailing (offsetting) theory of **informal organisation** which focuses attention on human

relations and the way in which the actions of the people in the organisation deviate from the plan.

The formal organisation is one which logically groups activities, delineation of authority and responsibility and the establishment of relationships to enable people to work most effectively together in accomplishing the objectives of the business.

It is important to note that these formal relationships emerge from the definition of the responsibilities attached to the holder of the post, for example, a relationship between the labourer and the supervisor because he is responsible for him.

Such formal relations can be set out in detail with as much precision as is desired in the form of job specifications and the general nature of their inter-relations can be set forth in an organisational chart.

However, there is the existence of the informal organisation which depends on the personalities of the people occupying the various positions in the organisational structure.

Impact of informal organisation on the business

Social Forces

Social forces of various types from the wider community outside the business infiltrate into the organisation and influence the relationships of its members and the way it works.

It is obviously important that such informal relations shall not conflict with those established by the formal structure.

Informal organisations can become detrimental or beneficial to the formal organisation depending on how it is managed. Informal organisations are loosely structured, flexible and spontaneous.

The benefits of an informal organisation can be:

1. Employee commitment
2. Knowledge sharing
3. Speed
4. Responsiveness
5. Co-operation

Managerial problems of informal organisation

1. Social groupings may act collectively against organizational interests
2. Morale-damaging rumors
3. Employees may suffer if they excluded from the social grouping

Business Organisation Structure and Design

Formal Organisations

Different Structures

Every organisation exists for the purpose of carrying out certain predetermined objectives and its structure must be necessarily to promote these objectives.

Only in very exceptional cases does an organisation remain structured on its foundation after it undergoes growth.

Thus an organisational structure is not fixed, it can change as the need requires. It is also important to note that in different organisations one might find different organisational structures whilst one may also find different structures in the same organisation.

In any given case the organisation structure owns much to the historical background of the firm and to the personalities of those who managed it in its formative years.

Other influences which are equally relevant and possibly more persistent in determining organisation structure are the type of markets and customers to which the business sells, the type of product sold and the system of technology in use, to produce the product.

Henry Minzberg's organisational ideology

Henry Minzberg produced an organisational ideology divided into 5 organisational configurations that help in understanding better how an organisation should be structured.

It is important to add that these configurations may not exist in real world but can be very helpful for someone who would like to understand the realities of an organisational structure.

1. **Strategic Apex**

   – drives the direction of the business through control over decision-making.

   Strategic Apex has to do with the top management and those who make the rules (decision makers)

2. **Middle Line**

   – performs the managerial functions of control over resources, processes and business areas.

3. **Operating Core**

   – performs the routine activities of the organisation, also known as the "do-er's".

4. **Technostructure**

   – drives efficiency through rules and procedures.

   These are the people who guide the operating core in being efficient in their jobs.

5. **Support Staff**

   – support all the companies' activities and provides expertise and service to the organisation.

Methods of Grouping Activities

The process of dividing and grouping the tasks which have to be performed into convenient units of management may be termed **departmentalisation**.

The board of directors and the chief executive must decide on the major divisions of activity.

The heads of each division will then have their own units, sections, branches or departments.

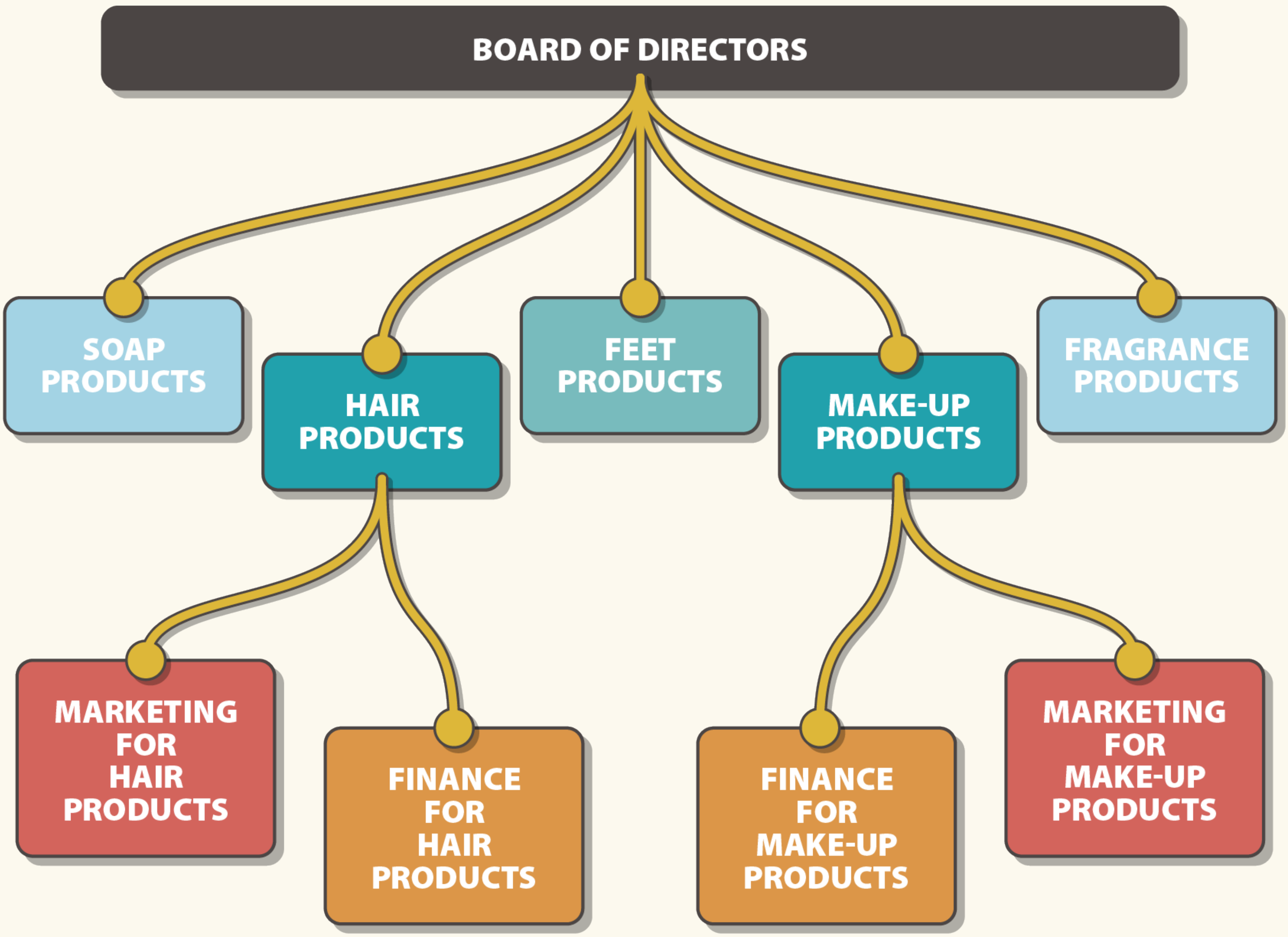
By Product/Division/Department

This method is used when a firm decides to group according to the product in question.

This type of method is mainly used by for example, a department store which sells soaps, hair products, feet products, makeup and fragrances.

When a variety of products of different types are being manufactured or sold there is always a danger that some products or lines will receive too little attention in selling and general promotional activities.

This danger can be met by forming an organisational structure on the basis of product groupings.



advantages	**disadvantages**
accountability	increases the overhead costs
specialisation	fail to share resources
co-ordination	

Geographical or by Territory

This method has a great deal in its favour where the organisation is based on geographically scattered units.

For example, the branches of a bank may be grouped in this way under regional offices.

Of great importance is the need for securing due attention to local factors because a full appreciation is not always possible at a distance.

Functional

Departmentalisation may take place on the basis of function.

Some functions may include Sales, Marketing, Purchasing and Research & Development.

advantages	**disadvantages**
pools expertise	focus on processes & inputs not customers and outputs
avoids duplication	communication problems
helps recruitment, development etc	poor co-ordination
works well with centralised businesses	creates vertical barriers

Matrix

A matrix structure organisation is formed by a team of people coming from different sections of the organisation.

This team is formed for a period of time to work on an assigned project.

The main advantage with a matrix structure is that the best people are chosen for a specific project thus expecting better results. A matrix structure is led by a project manager and all team members have to report to him whilst working on this project.

On the other hand, the same members of this project have to report to their line manager when they are doing their normal job (they report only issues that has to do with their normal job). This situation may lead to a conflicting loyalty towards who is really managing!

Entrepreneurial

This type of structure is built around the owner manager and is typical with small companies in the early stages of their development.

The entrepreneur often has specialist knowledge of the product or service.

Customer departmentation

An organisation may organize its activities on the basis of types of customer or market segment.

Hybrid structures

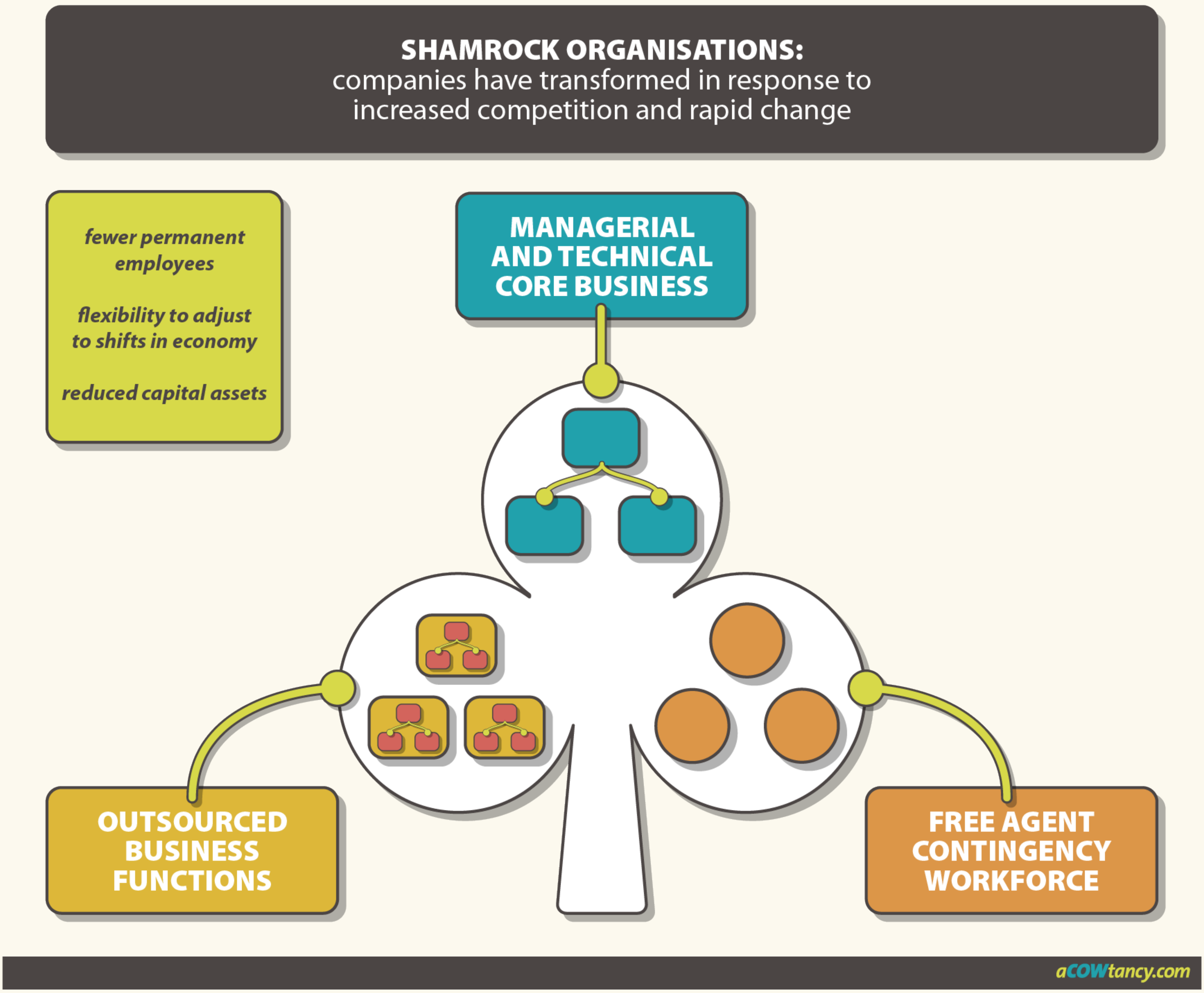
Organisation structures are rarely composed of only one type of organisation. Hybrid structures involve a mix of structures.

The Shamrock Approach

1. **Core Workers** – receive good promotion, security and status prospects relative to others and are often managers, team leaders and professional staff.

2. **Interface Workers** – low skilled labour that are generally called when needed for example part-time, seasonal staff – **these type of workers are becoming more dominant and more demanded.**

3. **Suppliers** – temporary and self-employed with general skills as needed, for example, consultants.



Basic Organisational Structure Concepts

Separation of Direction and Management

Ownership and management of larger organisations are often separated.

The separation of ownership and management has proven enormously beneficial to both owners and managers, since it brings together those who have capital but not necessarily the skills or time to run a business and those who have managerial skills but not necessarily the capital.

In order to ensure that managers are managing the business in the best interests of the owners, many safeguards/controls are put in place, which will lead to, for example, formal organisation structures being set up for an organisation.

Span of control and Scalar chain

The term **Span of Control** refers to the number of employees/subordinates directly responsible to a superior.

Therefore, if a manager of a large organisation has 10 subordinates, the span of control is 10.

A number of factors influence a span of control:

1. Capabilities often limit the span of control (ability/inability to manager people)
2. Nature of the workload
3. Geographical. If over a wide area this becomes more difficult
4. Subordinates work. If they do a similar tasks
5. Nature of problems. If problems that take a lot of time to sort, it would suggest a narrow span of control (less people to manage)
6. A good interaction between subordinates would suggest a wide span of control as they are able to help each other
7. The level of support required

A **scalar chain of command** refers to all levels between the very top and the lowest in the hierarchy

A **scalar chain of command** refers to all levels between the very top and the lowest in the hierarchy.

Fayol emphasised the need of having reporting relationships from top executive to the ordinary shop operative or driver, sensible, clear and understood.

Delayering

> This is the process of reducing the number of management levels from the bottom to the top.
>
> Therefore organisations are increasing the average span of control, reducing management levels and becoming flatter.

Tall and Flat organisations

> If the span of control is very limited, the number of organisational levels (scalar chain) will increase, as the organisation grows in size, the organisational structure becomes **TALL**.
>
> The fact that the number of immediate subordinates is limited at each level tends to create close supervision and increased dependence of the subordinate on his principal.
>
> A **FLAT** organisation is one which has a smaller number of organisational levels (scalar chain) and thus a wider span of control.

Anthony Hierarchy

THE CHARACTERISTICS OF THE STRATEGIC, TACTICAL AND OPERATIONAL LEVELS IN THE ORGANISATION

Strategic Planning is applied by top managers.

It is basically the planning for the long-term future including the definition of where the organisation needs to go and how to get there.

Tactical Planning looks at the medium term and is more of a specific nature than the strategic planning.

It looks at the departmental level and specifies how to use resources.

Operational Planning looks at the short term (day to day) and is very detailed.

This type of planning has a main concern of controlling what is set for the short term.

Strategic plans will have to be translated into medium term tactical plans which in turn need to be converted into detailed performance targets and budgets.

Centralisation & Decentralisation

THE DIFFERENCE BETWEEN...

Centralisation implies that there exists more than one level within an organisation and that decisions are made only by the highest level.

Therefore, one may say that a centralised organisation has a central authority and no decisions are made at lower levels.

Decentralisation encourages the existence of more than one centre of decision-making.

A decentralised company empowers lower levels within the hierarchy to take decisions.

advantages of centralisation	advantages of decentralisation
easy co-ordination of decision	decisions are delegated = less stress for senior management
wider view of consequences and	improves motivation

wider view of consequences and problems	improves motivation
balance interests of different functions	greater awareness of local problems
quality of decisions better due to skill level of senior management	quicker decision making
cheaper.......less managers!	develops skill level of junior managers
crisis decisions taken quickly	separate responsibilities
standardised procedures	decisions can be made locally

Business Organisation

ROLES AND FUNCTIONS OF THE MAIN DEPARTMENTS

1. **Research & Development**

   This department has achieved great importance in today's competitive world.

   Organisations are always on the look out to **improve** their products (process research) or even to **create** portfolio innovation to be better and ahead of competition (product research).

   The main roles of an R&D department besides improving and inventing products is to **anticipate** customer needs and this is why most of the time R&D falls under the umbrella of Marketing.

2. **Purchasing**

   Purchasing is regarded as a very important management function in an organisation.

   The main reason for this is that firms must be able to purchase goods and services at an acceptable price and quality.

   The purchasing manager has to obtain the best purchasing mix.

- Quantity

- Quality
- Price
- Delivery

3. **Production or Operations**

The main job of the production department is to convert raw materials into finished goods.

They are also after using the methods of production which are the most efficient for the production in question.

This is only made possible if good planning is conducted prior to the implementation of production.

Costs are to be monitored all the time thus wastage should be avoided as much as possible

4. **Direct service provision**

This department or function has to do with the delivery of a service directly to the end consumer.

For example an accountancy firm falls under this category. To ensure the best service for all clients, good time management is to be enforced.

The salient characteristics of services are:

- Intangibility
- Inseparability (from service provider)
- Variability
- Ownership (you can never be an owner of a service)

5. **Marketing**

The main concern in a marketing department is the **consumer**. This department tries to identify customer needs and wants, try to accommodate them in the best possible way and better then the competitors and in the case of a profit making organisation, all this must be at a result of a profit.

Many people think that Marketing is purely sales. In fact, Sales is only one are of marketing.

The main difference between a marketing oriented firm and a sales oriented firm is that the latter generates profits through sales volumes whilst marketing oriented firms incur profits by establishing long term customer satisfaction.

6. **Administration**

The Administration department should support the other departments by processing administrative requests such as correspondence, photocopying etc.

These people must have excellent communication skills to coordinate the needs between the departments.

7. **Finance**

It is important that the finance department has continuous links with the other departments.

The main role of this department, though, is to manage the finances of an organisation by monitoring income and expenditure.

It is also in charge of preparing the final accounts and to raise finances of the company.

This is generally done by either issuing shares or taking loans.

8. **Human Resources**

Human resources management (HRM) is in charge of recruiting and selecting employees, motivating employees and making the most effective use of human resources.

Marketing in an organisation

THE ROLE OF MARKETING IN AN ORGANISATION

The Definition of Marketing

Marketing touches all of us every day of our lives.

We wake up in the morning and brush our teeth with Sensodyne toothpaste, shave with Gillette Sensor razor and use Dove shower gel.

We put on a pair of Guess jeans and Nike running shoes whilst heading to the kitchen.

We serve ourselves some Kellogg's Special K cereal and drink a cup of Nescafe coffee.

We go to work, switch on the radio and most of the time we end up bombarded with ongoing commercials.

> Marketing was defined by the American Association as:
>
> “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives”
>
> Philip Kotler defines Marketing as:
>
> “the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target audiences for the purpose of personal or mutual gain.
>
> It relies heavily on the adaptation and co-ordination of product, price, place and promotion for achieving effective response”

There are many accepted definitions of marketing and in fact there is no one unified definition.

All the above definitions are correct but because of the difficulty of incorporating all the facets of marketing into a simple definition some additional key points are important to be added.

Marketing focuses on the needs and wants of the marketplace

Marketing is concerned with satisfying the needs and wants

Marketing involves analysis, planning and control

Marketing focuses on achieving customer satisfaction to achieve its business objectives, thus a marketing oriented firm is one that has changed the marketing philosophy into an overall business philosophy

Is Marketing all about selling?

> NO – although we all tend to be bombarded with different commercials through different media channels, marketing is not only sales.
>
> The latter is only the tip of the marketing iceberg.

The Marketing Mix

The Marketing Mix also known as the 4 P's is comprised of:

1. **P**roduct
2. **P**rice
3. **P**lace
4. **P**romotion

Product

A **product** is anything that can be offered to a market for attention, for acquisition, use or consumption that might satisfy a want or a need.

A product can be either a good or a service that is perceived together with its tangible and intangible attributes.

One might think the key product decision for a manufacturer of floor detergent is to focus on creating a formula that cleans more effectively.

In actuality, while decisions related to the consumable parts of the product are extremely important, the TOTAL product consists of more than what is consumed.

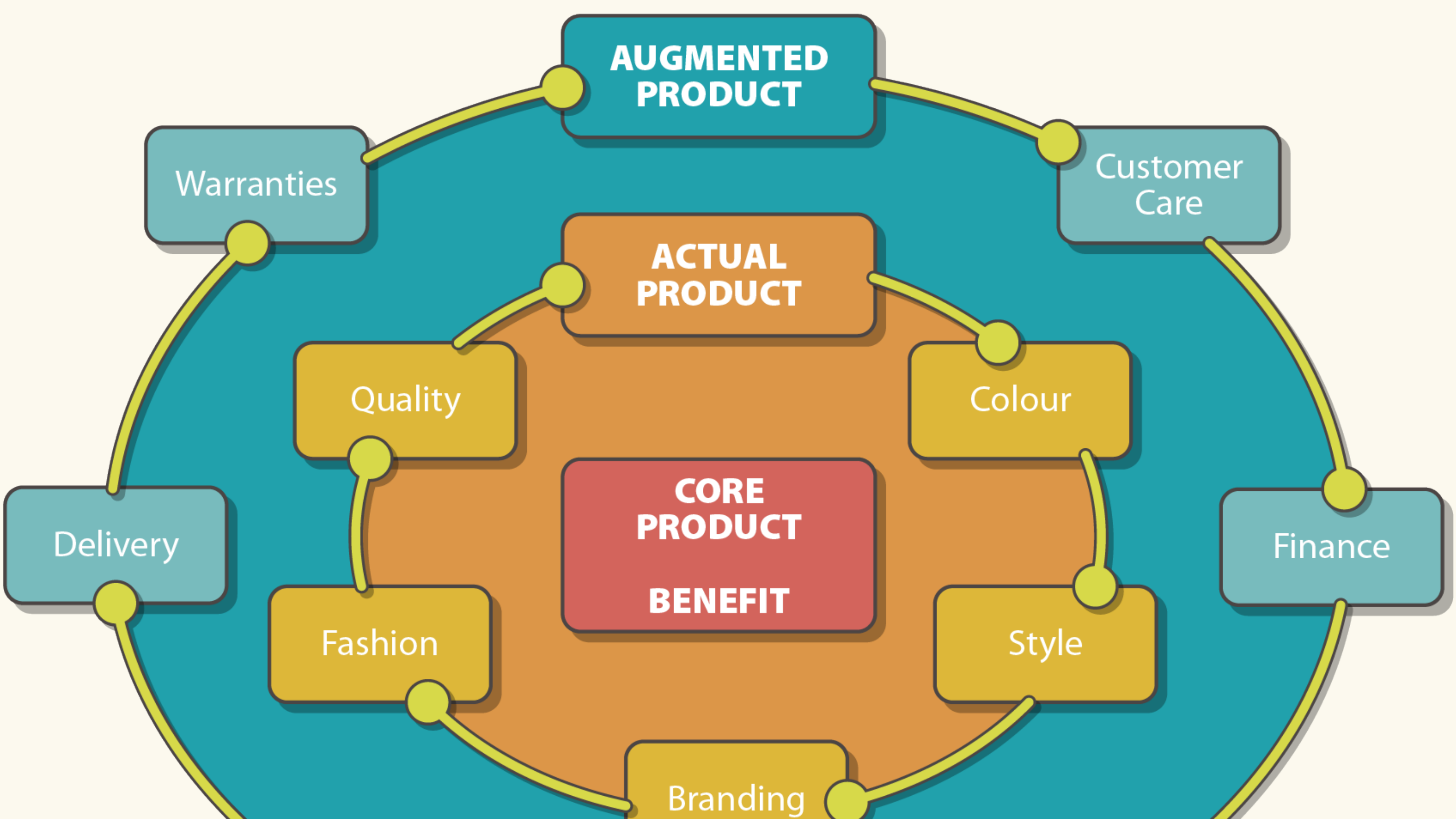
The total product offering and the decisions facing the marketer can be broken down into three key parts:

THE CORE PRODUCT - the overall benefit of buying the product

THE ACTUAL PRODUCT – the brand and quality you are purchasing

THE AUGMENTED PRODUCT - anything over and above the purchase such as delivery

THE THREE LEVELS OF A PRODUCT



Price

In order to make a profit, a business should ensure that its products are priced above their total average cost.

In the short-term, it may be acceptable to price below total cost if this price exceeds the marginal cost of production – so that the sale still produces a positive contribution to fixed costs.

If the business is a monopolist, then it can set any price.

At the other extreme, if a firm operates under conditions of perfect competition, it has no choice and must accept the market price.

The reality is usually somewhere in between. In such cases the chosen price needs to be very carefully considered relative to those of close competitors.

Consideration of customer expectations about price must be addressed.

Ideally, a business should attempt to quantify its demand curve to estimate what volume of sales will be achieved at given prices.

Sometimes a company is not free to price its product at any level it chooses.

For example, there may be price controls that prohibit pricing a product too high.

Pricing it too low may be considered predatory pricing or “dumping” in the case of international trade.

Offering different price for different consumers may violate laws against price discrimination.

Finally, collusion with competitors to fix prices at an agreed level is illegal in many countries.

The main key considerations when deciding the price of a product:

4 C's

COST – **C**USTOMERS – **C**OMPETITION - **C**ORPORATE OBJECTIVES

Some pricing strategies would include:

> Cost-plus pricing involves the determination of all fixed and variable costs associated with products or services.
>
> After the total costs attributable to the product or service have been determined, managers add a desired profit % to each unit such as a 5 or 10 percent markup.
>
> The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to

The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to achieve a targeted level of profit.

Going rate pricing is when a company sets its price of a product according to the price being charged by competitors offering similar products.

This is generally practised when there is a market leader and the other companies try and meet his prices.

This method can be rather dangerous for small companies who are trying to compete with bigger companies that enjoy benefits resulting from economies of scale.

The practice of 'price skimming' involves charging a relatively high price for a short time where a new, innovative, or much-improved product is launched onto a market.

The objective with skimming is to "skim" off customers who are willing to pay more to have the product sooner; prices are lowered later when demand from the "early adopters" falls.

Penetration pricing involves the setting of lower, rather than higher prices in order to achieve a large, if not dominant market share.

This strategy is most often used by businesses wishing to enter a new market or build on a relatively small market share.

This will only be possible where demand for the product is believed to be highly elastic, i.e. demand is price-sensitive and either new buyer will be attracted, or existing buyers will buy more of the product as a result of a low price.

Discrimination pricing takes place when a different price is charged either to different people or else during peak and off-peak.

For example, some public transport services entitle a pensioner to pay a different price than a person under 61 of age.

The dial-up internet charges are higher during peak hours.

Place

Place is also known as channel or distribution. It is the mechanism through which goods and/or services are moved from the manufacturer/service provider to the user or consumer.

These are companies or persons that help in some way or other for goods and services to be distributed from manufacturers in order to reach consumers.

These intermediaries are generally referred to as:

1. Agents
2. Wholesalers
3. Retailers

4. Financial companies
5. Transport companies

Intermediaries perform tasks such as:

1. moving the goods efficiently
2. breaking bulk
3. consolidating goods (retail stores carry a wide assortment of goods from different manufacturers—e.g., supermarkets span from toilet paper to cat food)
4. added services (e.g., demonstrations and repairs)

Promotion

Personal Selling is an oral presentation in a conversation with one or more prospective buyers for the purpose of making a sale.

Advertising is any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor.

Sponsorship is where an organization pays to be associated with a particular event, cause or image.

Companies will sponsor sports events such as the Olympics or Formula One. The attributes of the event are then associated with the sponsoring organisation.

Direct marketing is any unsolicited (spontaneous) contact a business makes with existing or potential customers in order to generate sales or raise awareness.

Direct marketing allows a business to generate a specific response from targeted groups of customers.

Public Relations is the art and science of managing communication between an organisation and its key public constituents to build, manage and sustain its positive image.

The AIDA Model

AIDA is a communication model which can be used by firms to aid them in promoting their product or services.

AIDA is an Acronym for:

AIDA is an Acronym for:

> Attention
>
> Interest
>
> Desire
>
> Action

Beyond the 4P's other elements of the marketing mix have come to light through the work of Kotler amongst others.

These include:

1. People
2. Process
3. Physical Evidence

People

An essential ingredient to any service provision is the use of appropriate staff and people.

Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organisation wants to obtain a form of competitive advantage.

Consumers make judgments and deliver perceptions of the service based on the employees they interact with.

Staff should have the appropriate interpersonal skills, attitude and service knowledge to provide the service that consumers are paying for.

Process

Process refers to the system used to assist the organisation in delivering the service.

Physical Evidence

Physical Evidence is the element of the service mix which allows the consumer again to make judgments on the organisation. Physical evidence is an essential ingredient of the service mix.

Consumers will make perceptions based on their sight of the service provision which will have an impact on the organisations perceptual plan of the service.

The relationship of the Marketing Plan to the Strategic Plan

The focus of a strategic plan is on the entire organisation. It has to do with the vision of an organisation spelling out where the organisation would like to go in the future and how to get there.

On the other hand, a marketing plan spells out the activities related to marketing (product, price, place and promotion) activities.

It is only after formulating a very good strategic plan can a marketing plan be prepared.

The main 3 steps in a strategic plan are:

1. **Analysis**

   Analysis implies the examination of the present situation.

   This is generally conducted by a SWOT analysis (strengths, weaknesses, opportunities, threats).

2. **Choice**

   At the time of performing analysis, long term goals are established.

   It is then the time to choose the best methods or strategies to achieve the goals.

   One has to decide where to compete and how to compete and if staying in the local market or expanding in the international markets.

3. **Implementation**

   If a company manages to choose the right strategies, it would help in the execution or implementation of such strategies.

   It is only at this stage that the long-term strategy can be translated into other plans such as:

marketing	management
operations/production	accounting/finance
computer information systems	research and development

Organisational Culture in Business

Organisational Culture

CULTURE

Culture is defined by Charles Handy as being - “the way we do things around here”.

By this Handy means the sum total of the beliefs, knowledge, attitudes, norms and customers that prevail in an organisation.

The main components of Culture

If one had to analyse Culture in more detail, one might say that organisational culture forms in response of two major challenges that confront every organisation:

1. **External adaptation**

   which has to do with how the organisation copes with its constantly changing external environment;
2. **Internal integration**

   which has to do with the establishment of effective working relationships among the members of an organisation.

The national culture, customs and societal norms of a country also shape the cultures of organisations operating in it.

The dominant values of a national culture may be reflected in the constraints imposed on organisations by others.

For example, a country's form of government may have a dramatic impact on how an organisation does business.

It is important to mention at this stage, that culture is not something standard, thus an organisational culture found in an accountancy firm no. 1 does not mean is the same as the organisational culture found in an accountancy firm no. 2.

Factors that shape Culture of Organisation

THE FACTORS THAT SHAPE THE CULTURE OF THE ORGANISATION

The six major influences on the culture of an organisation

1. **Size**

   – how large is the organisation in terms of turnover, physical size and employee numbers

2. **Technology**

   – how technologically advanced is the organisation either in terms of its products, or its productive processes

3. **Diversity**

   – how diverse is the company either in terms of product range, geographical spread or cultural make-up of its stakeholders

4. **Age**

   – how old is the business or the managers of the business – how experienced are the strategic level decision makers

5. **History**

   – what worked in the past? Do decision makers have past successes to draw upon; are they willing to learn from their mistakes?

6. **Ownership**

   – is the organisation owned by a sole trader? Are there a small number of institutional shareholders or are there large numbers of small shareholders?

While all the above cultural levers are important, the characteristics and configuration of the board and the management team

are key elements.

To a very large extent, they control each other, establishing the standards and the tone.

A change in management can have a profound impact on organisational culture, effectiveness and performance.

Often subtly, through their actions and words, management shape, foster and evolve an organisation's culture by pushing or pulling the levers that can influence it.

It is also their responsibility to ultimately dismantle the culture when it becomes disfunctional.

In reality however this is frequently not the case. Many organisations are so locked within their historical cultures that they cannot see reality for what it really is.

It is difficult to achieve above average performance when confined by such mental model restraints.

In a stable environment this may not be a major problem.

However in today's rapidly changing world, this reliance on dated assumptions can easily lead to a terminal illness capable of devastating an organisation and destroying many individual careers.

Contribution on Culture

THE CONTRIBUTION MADE BY WRITERS ON CULTURE

Edgar Schein – Determinants of organisational culture

Schein argues that there exists a strong influence on organisational culture by who leads the organisation.

He further commented that if leaders are to lead then it is essential that they understand the levels of organisational culture.

Schein's Cultural theory is sometimes represented as the Iceberg Concept

Schein divided organisation culture into 3 levels:

1. **Artefacts**

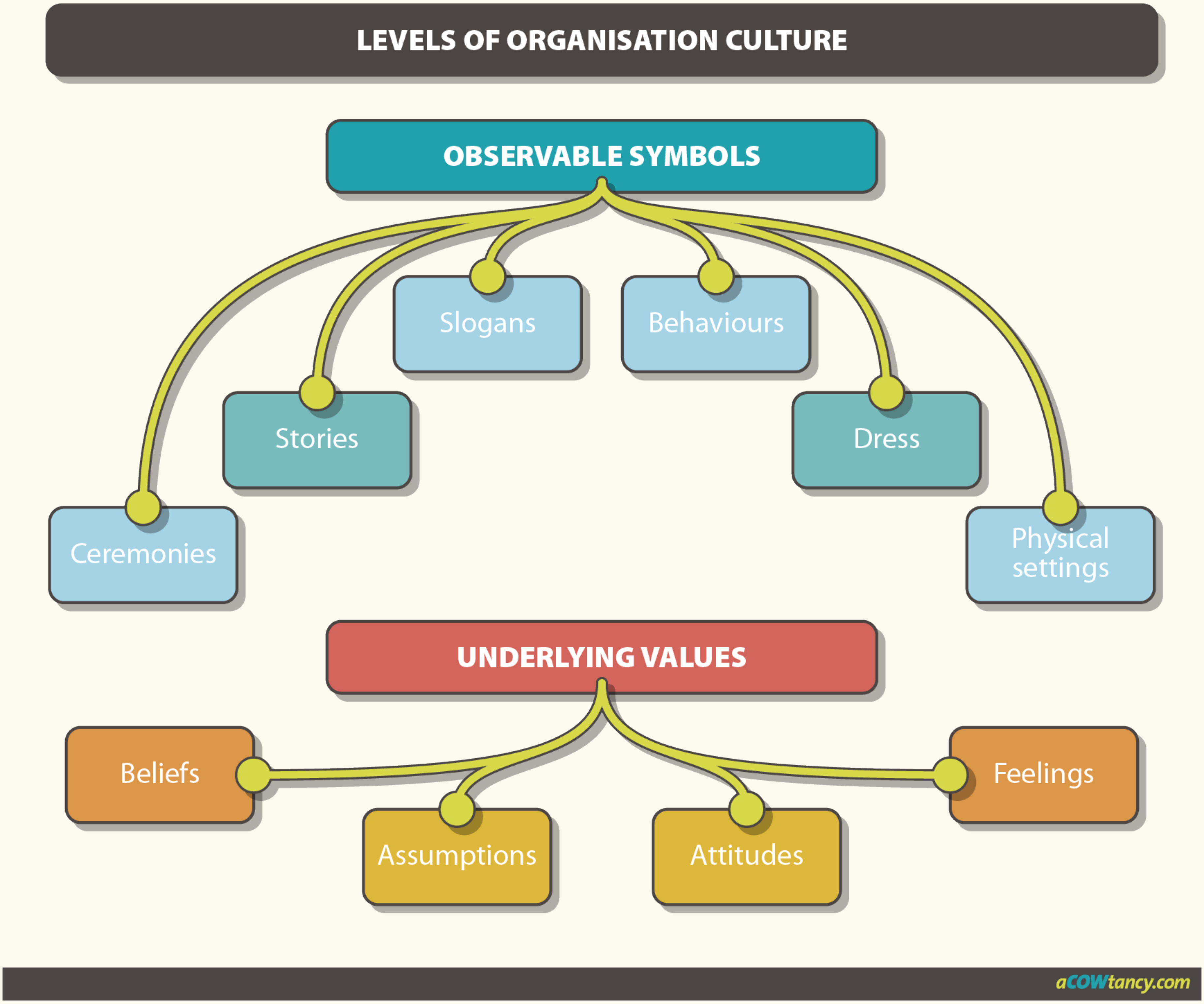
   are the aspects of culture that can easily be seen like for example the way that people dress.

2. **Expoused values**

   are the strategies and goals of an organisation, including company slogans.

3. **Basic assumptions and values**

are difficult to identify as they are unseen and exist mainly at the unconscious level.



Handy – Four Cultural Types

In 1972, Harrison classified an organisation into four different types only for Charles Handy to popularise them by using Greek Gods!

1. **ZUES – Power Culture**

Zeus (Power Culture) the all-powerful head of the gods, an organisation dominated by the personality and power of one person,

often the founder or owner.

2. **APOLLO – Role Culture**

   Then there was the Apollo (Role Culture) organisation, dominated by rules and procedures, after Apollo the God of harmony and order. In this version of culture, people describe their job by its duties, not by its purpose.

   It is a bureaucratic organisation, where the structure determines the authority and responsibility of individuals and there is a strong emphasis on hierarchy and status.

3. **ATHENA – Task Culture**

   Athena (Task Culture), the warrior goddess, was the symbol of the project organization, the culture that dominates consultancies, advertising agencies and, increasingly, all innovative businesses.

   In this type of culture, people describe their position in terms of the results that they are achieving. It is after accomplishing a task.

4. **DIONYSUS – Person Culture or Existential Culture**

   Lastly there was the Dionysian (Person) culture, one in which the individual has the freedom to develop his or her own ideas in the way they want - an artists' studio, perhaps, or a university.

   They are hard to manage, these Dionysian places, but increasingly necessary if you want to employ really creative people.

Does that mean that any organisation has only four options to choose from for its style of management?

No. The world is not that simple. In fact every organisation, just like every individual, is different from every other one, but what they are includes a different mix of the same four basic cultures.

The trouble is that some get stuck in one of them instead of mixing all four.

Handy matched its cultural models to Robert Anthony's classification of Managerial activity.

1. **Strategic management**

   is concerned with direction-setting, policy making and crisis handling. Therefore it suits power culture.

2. **Tactical management**

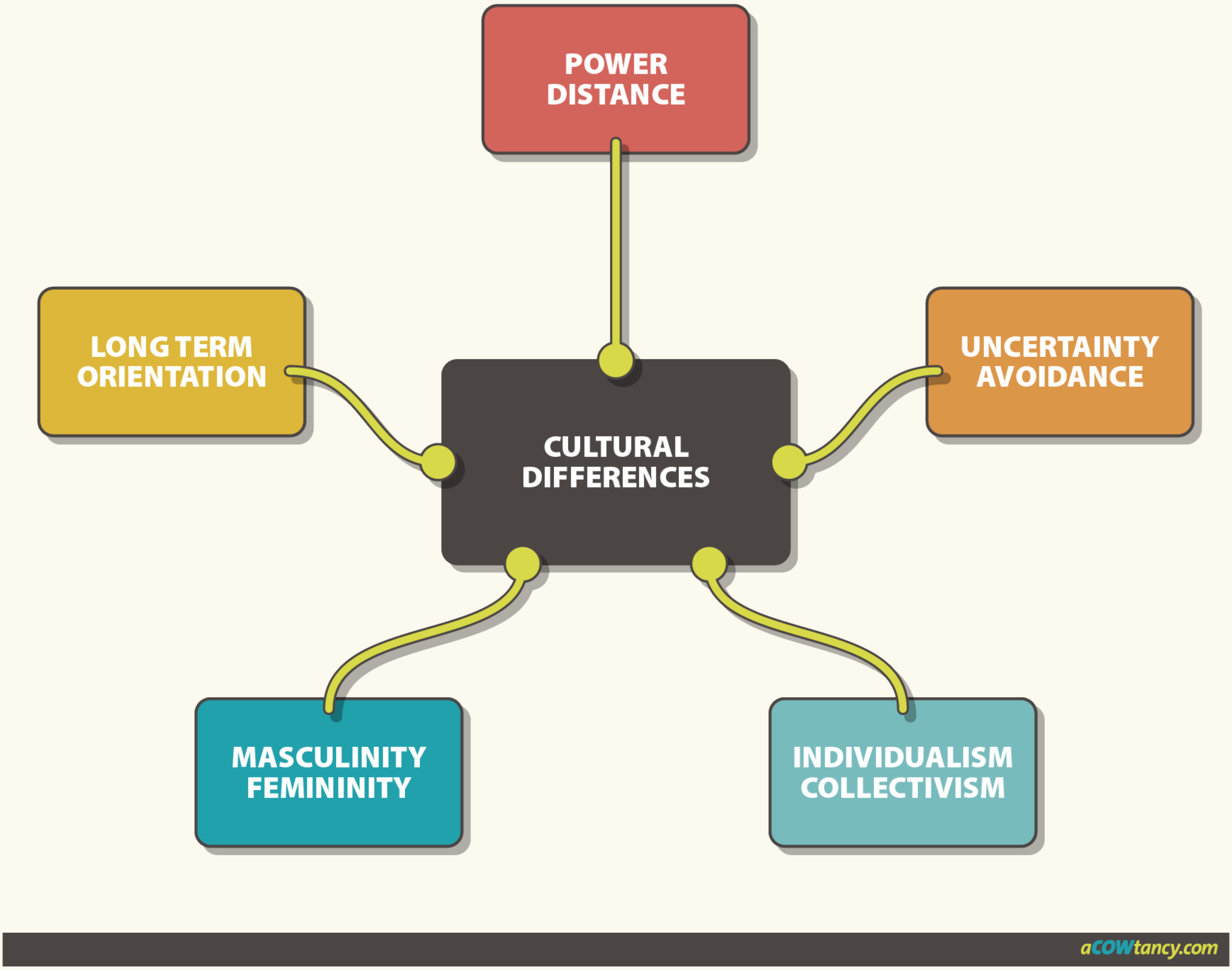
   is concerned with establishing means to corporate ends therefore suits a task culture.

3. **Operational management**

   is concerned with routine activities therefore it suits role culture.

Hofstede – International perspectives of Culture

Hofstede looked for national differences between over 100,000 of IBM's employees in different parts of the world, in an attempt to find aspects of culture that might influence business behaviour.



Power distance

Power distance measures how subordinates respond to power and authority.

In high-power distance countries (Latin America, France, Spain, most Asian and African countries), subordinates tend to be afraid of their bosses, and bosses tend to be paternalistic and autocratic.

In low-power distance countries (the US, Britain, most of the rest of Europe), subordinates are more likely to challenge bosses and bosses tend to use a consultative management style.

It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders.

Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that 'all societies are unequal, but some are more unequal than others'.

Collectivism versus Individualism

In individualistic countries (France, Germany, South Africa, Canada, etc.), people are expected to look out for themselves.

Solidarity is organic (all contribute to a common goal, but with little mutual pressure) rather than mechanical.

Typical values are personal time, freedom, and challenge.

In collectivist cultures (Japan, Mexico, Korea, Greece) individuals are bounded through strong personal and protective ties based on loyalty to the group during one's lifetime and often beyond (mirrored on family ties).

Masculinity versus Femininity

Masculinity versus its opposite, femininity, refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found.

The IBM studies revealed that

(a) women's values differ less among societies than men's values;

(b) men's values from one country to another contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other.

The assertive pole has been called 'masculine' and the modest, caring pole 'feminine'.

The women in feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values.

Uncertainty avoidance

Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity;

it ultimately refers to man's search for Truth.

It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.

Unstructured situations are novel, unknown, surprising and different from usual.

Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth;

'there can only be one Truth and we have it'.

People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy.

The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow many currents to flow side by side.

People within these cultures are more phlegmatic and contemplative, and not expected by their environment to express emotions.

Confucianism versus Dynamism (Long term versus Short term)

Long-term orientation versus short-term orientation deals with Virtue regardless of Truth.

Values associated with Long Term Orientation are thrift and perseverance;

Values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'.

Both the positively and the negatively rated values of this dimension are found in the teachings of Confucius, the most influential Chinese philosopher who lived around 500 B.C.; however, the dimension also applies to countries without a Confucian heritage.

Committees in Business Organisation

Purposes of Committees

THE BASIS OF COMMITTEES

A **committee** is a group of people assigned a task that they are expected to carry out as a group.

The key objective of the rules of procedure for committees is to facilitate the smooth running of a committee.

Its actions can only be group actions – individual members have no valid power to act or to decide anything apart from the group.

If, in fact, they do act apart from their fellows and their acts are accepted as valid, then the committee is a mere facade without any real substance!

In theory, when acting as a committee, all members enter it as equals.

They will normally elect a chairman and a secretary if the proceedings are to be formal and record is meant to be kept.

In fact, one can mention three main types of committees:

1. The **ad hoc committees** which are created for a specific reason and on temporary basis
2. The **formal committees** are part of the organisational structure with specifically delegated duties and authority
3. **Audit committees** – review the company's accounting policies and internal controls, annual financial statements and the audit report with the company's external auditors

The most common complaint brought against committee work is the amount of time which it consumes in relation to the results achieved.

This is the same thing as saying that committees are an expensive instrument of administration.

This is because the modern world has far too many of them and their proceedings are not always successful.

Committees proliferate not only within businesses but also outside in connection with trade associations and government

departments and they make increasing demands upon the time of managers.

Each different point of view expressed by the members of the committee must be ventilated and attempts made to construct a bridge between them.

Even if a simple majority vote is all that is needed, considerable time may be taken up to avoid any appearance of stifling the expression of minority opinion.

Jobs assigned to committees are expected to achieve better results than that of a single person because of the nature of group decision taking.

From this point of view, therefore, the committee will probably be employed in those cases where group deliberation and judgement are likely to be of better quality than that of an individual - "two heads are better than one".

The following points summarise the purpose of the committee within an organisation:

- gather information
- disseminate information or instructions – delegating authority to employees or managers
- generate ideas
- make or implement decisions – committees may give a voice in the making of the decisions before being implemented
- coordinate the efforts of a number of people from divergent disciplines – bringing parties together for discussion in the hope of finding reconciliation
- act as a delaying mechanism – and thus achieving time
- oversee a function or procedure

Types of Committee

TYPES OF COMMITTEES USED BY BUSINESS ORGANISATIONS

Committees have been classified in various ways according to the major purposes which

they are intended to serve and the power they exercise.

1. **Board of Directors** – group of people that govern the organisation
2. **Steering Committee**

   – oversee a major project, generally IT based.

   It is often involved in deciding how to allocate scarce IT resources and planning for future system development.
3. **Works safety Committee**
4. **Ethics committee**
5. **The Accounting Standards Board (ASB)**

   – aims to promote consistency in corporate reporting by creating financial reporting standards to which major businesses are expected to adhere
6. **Remuneration Committee**

   – in charge of setting the salaries of Directors

Advantages & Disadvantages of Committees

COMMITTEES

Advantages	**Disadvantages**
consolidation of authority	sometimes too large to work
delegate effectively	time consuming and can be expensive
blurring responsibilities	can delay matters due to other work loads
delay or gain time	frequent or infrequent attendance
	incorrect or ineffective decisions
	can invite compromise

Chair & Secretary of a Committee

The Chairperson

Responsibility for the efficient running of the committee meeting rests with the chair.

While everyone has some responsibility for a well-run meeting, the chair will, in the end, make the greatest contribution to the success of the meeting.

The chair must ensure that all discussion is orderly, that every individual has an opportunity to participate and that a decision is made on each topic before proceeding.

The chair must ensure impartiality during discussions, maintain an open mind, and not influence the final decision.

If, for any reason, the chair feels compelled to join the discussion, other than to provide factual information to the assembly, or to express an opinion, he/she must vacate the chair during discussion on the topic and ask another director to chair the meeting.

When that topic is dealt with, the official chair may resume the position and continue with the meeting.

The Committee Secretary

One of the busiest people at the meeting is the secretary.

This person is responsible for taking notes, documenting progress and procedures and eventually producing a set of minutes that accurately reflects the decisions made by the committee.

The secretary is responsible for having copies of the laws, policies and previous minutes (in the case of a continuation meeting) available should members of the committee require them during the course of the meeting.

One must also mention that the work of the secretary is not only during the meeting.

The secretary has different tasks both before and after the meeting.

Before the meeting the secretary must fix the date, book the venue, think for any refreshments needed and make sure there is also access for people with disability in case one of the attendants has such a condition.

S/he needs to prepare and issue the agenda and other relevant documents.

After the meeting, the secretary has the role of preparing the minutes and sending them to all members of the committee after having them signed by the chair.

Responsibility for correspondence rests with the secretary.

Governance and Social Responsibility in Business

Ownership & Control

SEPARATION OF OWNERSHIP AND CONTROL

The separation of ownership and control is a situation where decision makers do not own a major share of the wealth effects of their decisions.

However, the shareholders will want to build in safeguards to ensure that the managers run the business in the interests of all the stakeholders fairly, and not just in the managers' own interest.

There are three different views associated with the “ownership” and “management” of organisations:

1. The Stewardship Theory
2. Agency Theory
3. Stakeholder Theory

The Stewardship Theory

> This views the management of the organisation as the “stewards” of its assets, charged with their employment and deployment in ways consistent with the overall strategy of the organisation.
>
> Other groups take little or no part in the operations of the company. They receive information via reports, accounts etc.

> Other groups take little or no part in the operations of the company. They receive information via reports, accounts etc.
>
> Technically, the shareholders have the right to dismiss stewards via a vote at the AGM (Annual General Meeting).

The Agency Theory

> A very different approach to governance is held within that of the agency theory.
>
> It believes that rather than acting as a steward of the company the management seeks to service their own interests.
>
> They will only look after the performance of the company if it coincides with their personal goals.

The Stakeholder Theory

> This theory looks at the bigger picture.
>
> It believes that the management has a duty of care, not just to the owners of the company but also to the wider community of interest, or stakeholders.

Contemporary Organisations

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Corporate Governance is the set of processes and policies by which a company is directed, administered and controlled. It includes the appropriate role of board of directors and of the auditors of a company.

Corporate Social Responsibility refers to the idea that a company should be sensitive to the needs and wants of all the stakeholders in its business operations, not just the shareholders.

A closely linked idea is that of **Sustainable Development**. Companies should make decisions based not only on financial factors, but also on the social and environmental consequences of their actions.

Due to extensive abuse and scandals in recent years, corporate governance and an understanding of the social impact have been highlighted with the business community.

Imposing strict corporate governance procedures can vastly improve the way in which an organisation is run.

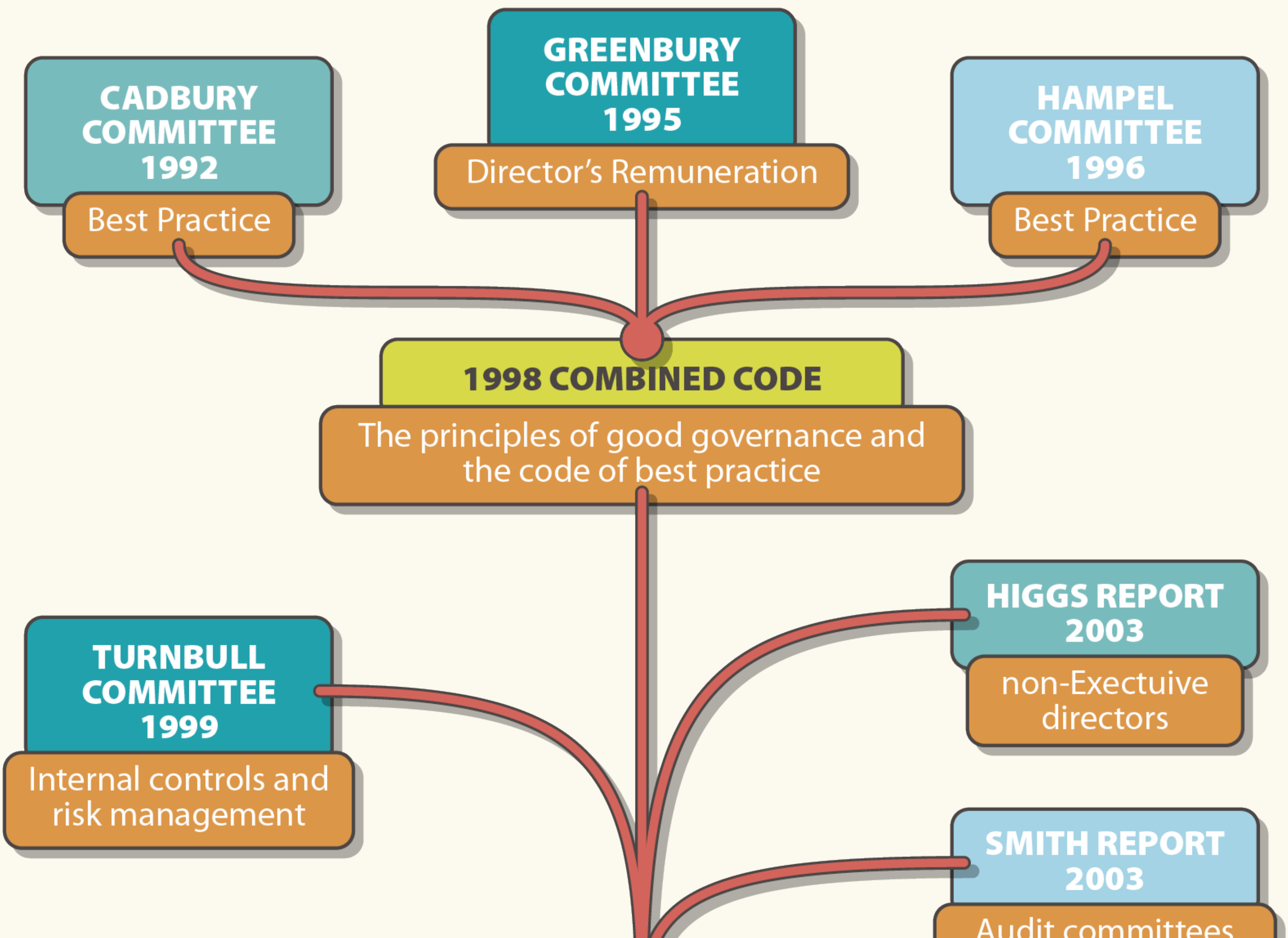
Poor corporate governance can lead to poor organisational performance.

Poor corporate governance can lead to poor organisational performance.

In May 1991, due to lack of confidence in the financial reporting and the ability of external auditors to provide the assurances required by the users of financial statements, the Cadbury Committee was set up. This led to the 2003 Combined Code of Corporate Governance.

Features of poor corporate governance

1. Domination by a single individual
2. Lack of involvement of board
3. Lack of adequate control function
4. Lack of supervision
5. Lack of independent scrutiny
6. Emphasis on short-term profitability
7. Misleading accounts and information



Responsibility of Organisations

TO MAINTAIN APPROPRIATE STANDARDS OF CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

The traditional view has been that **corporate social responsibility** offers no business benefits, and destroys shareholder value by diverting resources away from commercial activity.

Such traditionalists argue that companies should operate solely to make money for shareholders and that it is not a company's role to worry about social responsibilities.

Companies pay taxes to government, and it is governments and charities that should be responsible for social matters.

This traditional view is losing support amongst all sizes of businesses.

The modern view is that a coherent CSR strategy can offer business benefits by enabling a company to:

1. monitor changing social expectations
2. manage operational risks
3. identify new market opportunities
4. retain key employees

By aligning the company's core values with the values of society, the company can improve its reputation and ensure it has a

long-term future.

Balanced Scorecard Approach

The Balanced Scorecard approach emphasises the need to provide the user of a set of accounts with information which addresses all relevant areas of performance objectively.

This information should include both financial and non-financial elements, and the usual balanced scorecard approach is to report performance from four separate perspectives:

1. **financial perspective**
2. **customer perspective**
3. **internal perspective (internal efficiency)**
4. **innovative perspective**

Effective Corporate Governance

THE MAIN RECOMMENDATIONS OF BEST PRACTICE

NON-EXECUTIVE DIRECTORS

Whilst company law refers only to "directors" in general, two types of directors have emerged.

Those who are involved in the day-to-day execution of management are known as **executive directors** and those who primarily only attend board meetings are known as **non-executive directors**.

Non-executive directors should provide a balancing influence and play a key role in reducing conflicts of interest between management and shareholders.

The UK's Higgs report provide a useful summary of the role of non-executive summary.

1. **Strategy**

   – setting direction

2. **Performance**

– should scrutinize the performance of management in meetings goals and objectives

3. **Risk**

– should ensure that risk management is robust

REMUNERATION COMMITTEES

Director's remuneration should be set via a "remuneration committee" consisting of independent non-executives.

Due to directors being paid large salaries etc for a number of years (and being seen as major corporate abuse) The Greenbury committee in the UK set out principles to demonstrate what a good remuneration policy should look like:

1. Directors remuneration should be set by independent members of the board
2. Bonuses etc relate to measurable performance or enhance share value
3. Full transparency of directors remuneration

The committee also has to take into account the wider picture.

So, for example the package will need to attract, retain and motivate directors of sufficient quality.

There is also a balance between this and the shareholders interests.

The committee also has to consider:

The different levels of management/directorship

The ability for managers to leave

Individual performance

Overall organisational performance

AUDIT COMMITTEES

An audit committee of independent non-executive directors should liaise with external audit, supervise internal audit, and review the annual accounts and internal control.

Audit committees are very significant due to their responsibilities for supervising and offering an overall review.

They should have close interest in the work of the internal audit.

The benefits of an effective audit committee, as highlighted by the Cadbury committee:

- Improve the quality of financial reporting, by reviewing the financial statements
- Reduce opportunity for fraud by creating a climate of discipline and control
- Enable the non-executive to play a positive role by giving an independent judgment
- Help the finance director, by providing the forum to raise concern in situations that otherwise may be difficult
- Strengthen the position of the external auditor but providing a channel of communication and forum for issue of concern
- Provide a framework within which the external auditor can assert their independence in the event of a dispute
- Strengthen the position of the internal auditor
- Increase public confidence and credibility in the financial statements

PUBLIC OVERSIGHT

> The public is a legitimate stakeholder, thus it has the right to know how a particular company is being governed.
>
> One can also mention that the public has the right to be involved in the governance process of companies.
>
> The most obvious means of public oversight of corporate governance is via the publication of Annual Reports and Accounts.
>
> Companies should also discuss their plans with their representatives of various stakeholder groups including journalists and local politicians.

NOMINATION COMMITTEE

> A nomination committee should be in place for selecting board members and making recommendations to the board.
>
> It should consist of a majority of non-executive directors and should be responsible for finding suitable applicants to fill board vacancies and recommending them to the board for approval.

Social Responsibility Objectives

Corporate Social Responsibility

Corporate Social Responsibility (CSR) philosophy is based on the idea of being sensitive to the needs and wants of all the stakeholders in the business, not just the shareholders.

A stakeholder needs analysis can be carried out to bring some structure to the implementation of CSR programme.

The analysis involves doing research to determine:

1. Who are the key stakeholders of the business?
2. What are their needs?

Economic activities often impact those who are not involved in the activity.

For example, a corporation manufacturing automobiles generates pollution and the cost of this pollution is borne by nearby residents.

External costs (or benefits) arising from economic activities are referred to as externalities.

While firms of any size can create externalities, multinational corporations can use their political influence to avoid bearing responsibility for significant external costs.

“Given the close relation between minimizing costs and maximizing profits, it is natural to assume that an organization that seeks profits and has significant political power will feel some motivation to use that power to externalize costs, where possible.

seeks profits and has significant political power will feel some motivation to use that power to externalize costs, where possible.

This motivation may be held in check by ethical considerations, by regulation, or by a fear of backlash from groups that might harm the organization;

for example, consumer groups, or others who could mobilize effective public opinion." (Goodwin, 2003)

The benefits firms obtain from being able to impose externalities and shift costs to others are difficult to measure in economic terms.

The only available estimate of the total public cost incurred to support the operations of private corporations was $2.6 trillion for 1994 in the United States.

Accounting and Reporting Systems, Controls and Compliance

The Relationship of Accounting with Other Business Functions

Accounting & Purchasing Procurement

THE RELATIONSHIP

The purchasing/buying function is responsible for placing and following up orders. It coordinates with the accounting department as follows:

establishing credit terms	the accounting department will work with the buying department to liaise with suppliers to obtain a credit account and to negotiate credit terms which are acceptable.

prices	the accounting department can advise the buying department on the maximum price that should be paid to maintain margins
payment	payments may be approved by the buying department but are made by the accounting department
data capture e.g. orders	order details will be input by buying department and details passed to accounting department
inventory	the purchasing department will consult with the inventory section of the accounting department to determine the quantity of items already in stock and therefore the quantity required
budgeting	the accounting department will consult with the buying department on likely costs in preparing budgets

Financial considerations in Production

The production department plans and oversees the production of goods

It liaises with the accounting department as follows:

cost measurement, allocation, absorption	the production department measures quantitiesof materials and time used; the management accountant gives a monetary value to them. costs are then allocated and absorbed to calculate production costs based on advice given by the production department.

budgeting	the production department will decide how many items of what type are to be produced. the cost of producing these will be determined by the accounting and production departments together, and incorporated into the overall budget.
cost vs quality	the production and accounting departments will discuss the features that can be included in products and the raw materials that should be used. they should agree which better quality materials and features justify the extra cost, and discuss how to maximise quality and profit.
inventory	the production department will liaise with the inventory section to ensure that there are sufficient raw materials in stock for the production that is planned.

Financial issues Associated with Marketing

The marketing department coordinates with the accounting department as follows:

Budgeting

> The accounting department will discuss the likely sales volume of each product with the marketing department, in order to produce the sales budget.

Advertising

> The accounting department will help the marketing department in setting a budget, and in monitoring whether it is cost effective.

For example, they could help in measuring new business generated as a result of different advertising campaigns.

Pricing

The accounting department will have input into the price that is charged.

Often products are priced at cost plus a percentage.

Even if the marketing department determines the price based on market forces they need to consult with the accounting department to ensure that costs are covered.

Market share

The accounting department can provide the marketing department with information on sales volumes for each product, to help the marketing department in determining market share.

In many companies there can be a great deal of antagonism between marketing and accounting, especially over pricing and cost control.

Service provision

Companies very often provide services to customers, at the same time as a sale or afterwards, e.g. a computer retailer may charge an extra fee to help customers set up their system, or a car dealer may provide car servicing.

There are several issues about which the service departments may need the input of the accounting department.

Chargeout rates

This is the hourly rate which the company charges clients.

It should be higher than salary, as it should include a share of overheads, e.g. training and any profit the company wishes to make.

However if the Chargeout rate is too high customers will not use the service.

Many accounting firms base Chargeout rates for their staff on roughly three times that person's salary.

Estimating costs

Problems arise in determining the amount of overhead to be included in the chargeout rate.

Also, if the service takes longer to provide than expected, the company may not be able to pass on the extra cost.

Problems measuring benefits

Market conditions may mean that the chargeout rate contains a very low profit element.

The company may question whether it is worth carrying out these services.

The problem is that the benefits are intangible and not easy to measure, but nevertheless real.

A company with effective service provision has happier customers, and happy customers are more likely to buy from the company in the future, therefore leading to lower selling costs. But it is very difficult to measure these benefits.

Accounting and Finance Functions within Business

Formulation implementation and control

Formulation implementation and control

Groups that may have an interest in the financial information:

Manager of the company: They supervise the activities of the organisation and need this information to plan effectively, take control, forecast future earnings.

Shareholders of the company: They need to assess how effectively the company is being run.

Trade contacts: Suppliers need to understand the credit worthiness, customers need to be confident that the company is not going to close down.

Providers of finance to the company: Banks need this information to approve credit, loans, overdrafts.

Revenue & Customs: Need to know this information to assess business profits and tax payable by the company.

Employees of the company: Need to know this information as their future salaries, wages etc depend on the financial stability of the organization.

Financial analysts and advisers: May need this information for their clients.

Government and their agencies: Government may need this information to assess their allocation of resources and for national statistics.

The public: Organisations may well have a substantial impact on the local economy or indeed on environmental issues such as pollution.

At the head of each accounting department is usually a finance director

The finance directors has seat upon the board of directors and is responsible for routine accounting and the broader financial policies.

The responsibilities within a large finance/accounting department may be passed down to less senior staff such as:

1. **Financial Controller:**

- Routine accounting
- Providing reports for other departments
- Cashiers duties and cash control

2. **Management Accountant**

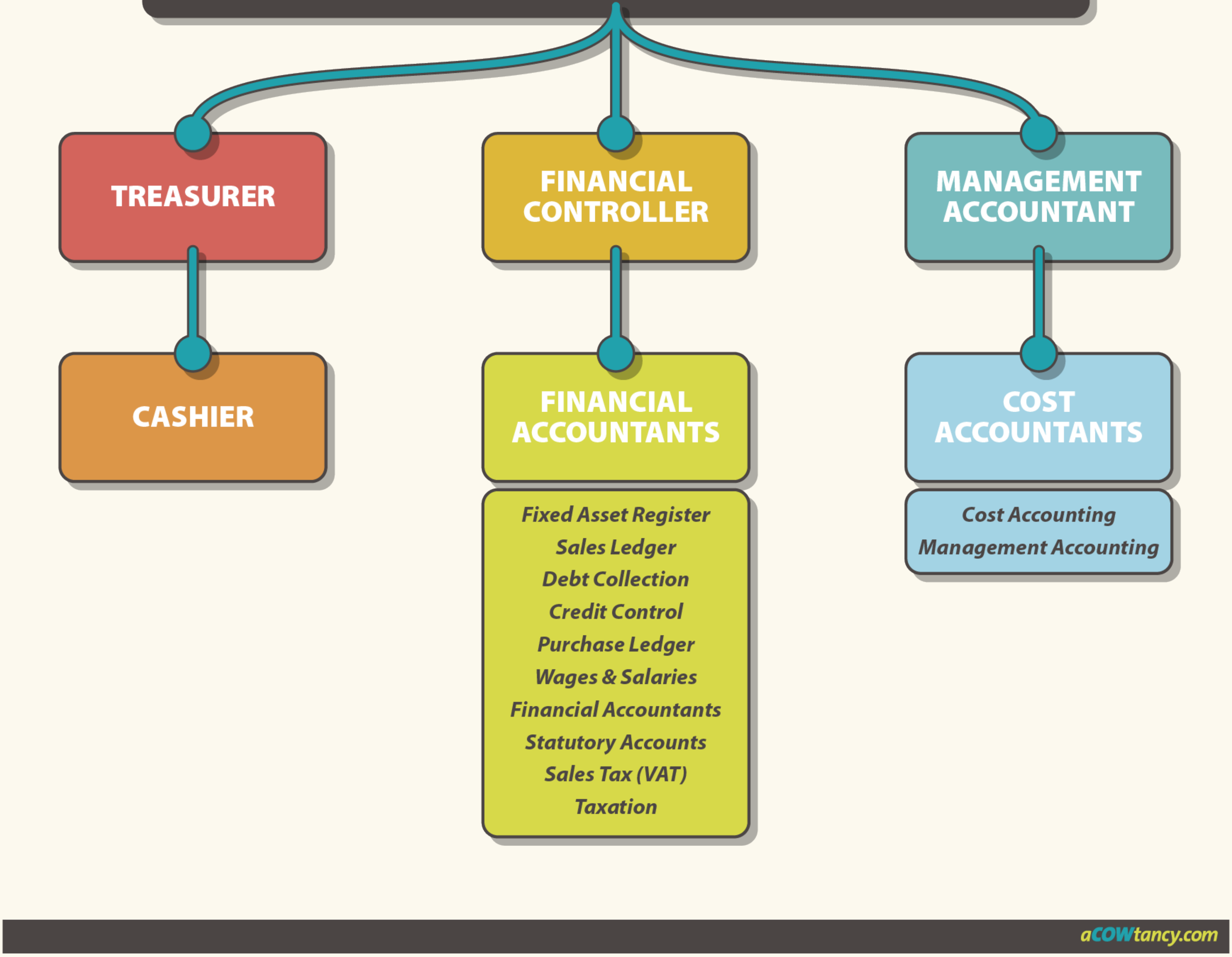
This position has equal status to the Financial Controller but with separate responsibilities:

- Cost accounting
- Budgets and budgetary control
- Financial management of projects

3. **Treasurer**

- Raising funds by borrowing
- Investing surplus funds
- Cash flow control

FINANCE DIRECTOR



Strategic management

refers to the art of planning the business at the highest possible level.

It is the duty of the company's leader (or leaders) including also the accounting function.

Strategic management focuses on building a solid underlying structure to a business that will subsequently be fleshed out through the combined efforts of every individual employed with the organisation.

- formulate policy
- implement policy by establishing procedures to be followed
- control performance

Policy formulation

is designed to achieve the organisation’s objectives, so the starting point must be to identify the objectives.

The purpose of setting objectives is to convert mission into performance targets, create yardsticks to track performance and push the firm to be inventive, intentional and focused.

One can distinguish between two types of objectives:

1. **Financial objectives**

   – outcomes that relate to improving firm's financial performance, e.g. to maximise the reported profits after tax, subject to treating each stakeholder group properly.

2. **Strategic objectives**

   – outcomes that will result in greater competitiveness and stronger long-term market position, e.g. become leader in a new product introduction in the next 5 years ending 2014.

Planning

is the establishment of objectives, and the formulation, evaluation and selection of the policies, strategies, tactics and action required to achieve them. The planning process is conventionally split into 3 timescales:

> strategic planning
>
> tactical planning
>
> operational planning

Once a plan has been adopted, it is then possible to control the activities of the business to seek to achieve the plan’s outcomes. Planning and control are thus interrelated terms.

Control over organisational performance can be achieved by:

1. budgetary control, and

2. the establishment of standards.

A budget is a plan expressed in quantitative (normally financial) terms for either the whole of a business or for the various parts of a business for a specified period of time in the future.

Budgetary control is the establishment of budgets relating the responsibilities of managers to the requirements of a policy, and the continuous comparison of actual with budgeted results.

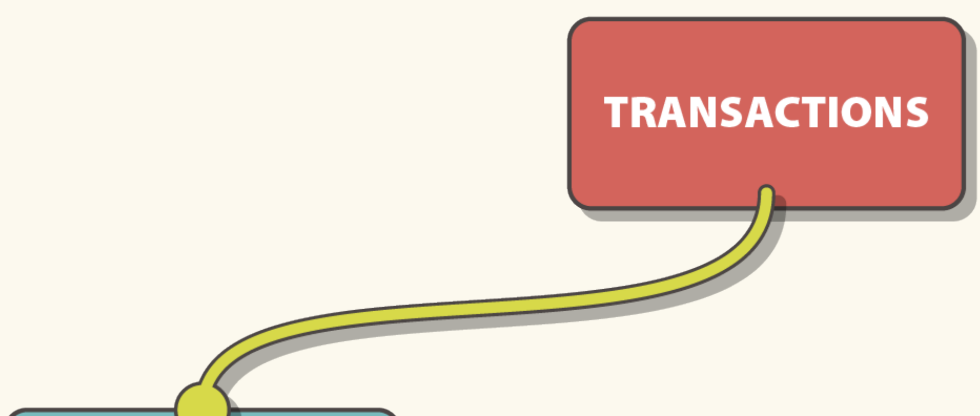
For example, a company's sales budget may be drawn up for each quarter of the next calendar year, either in units sold or in money amounts.

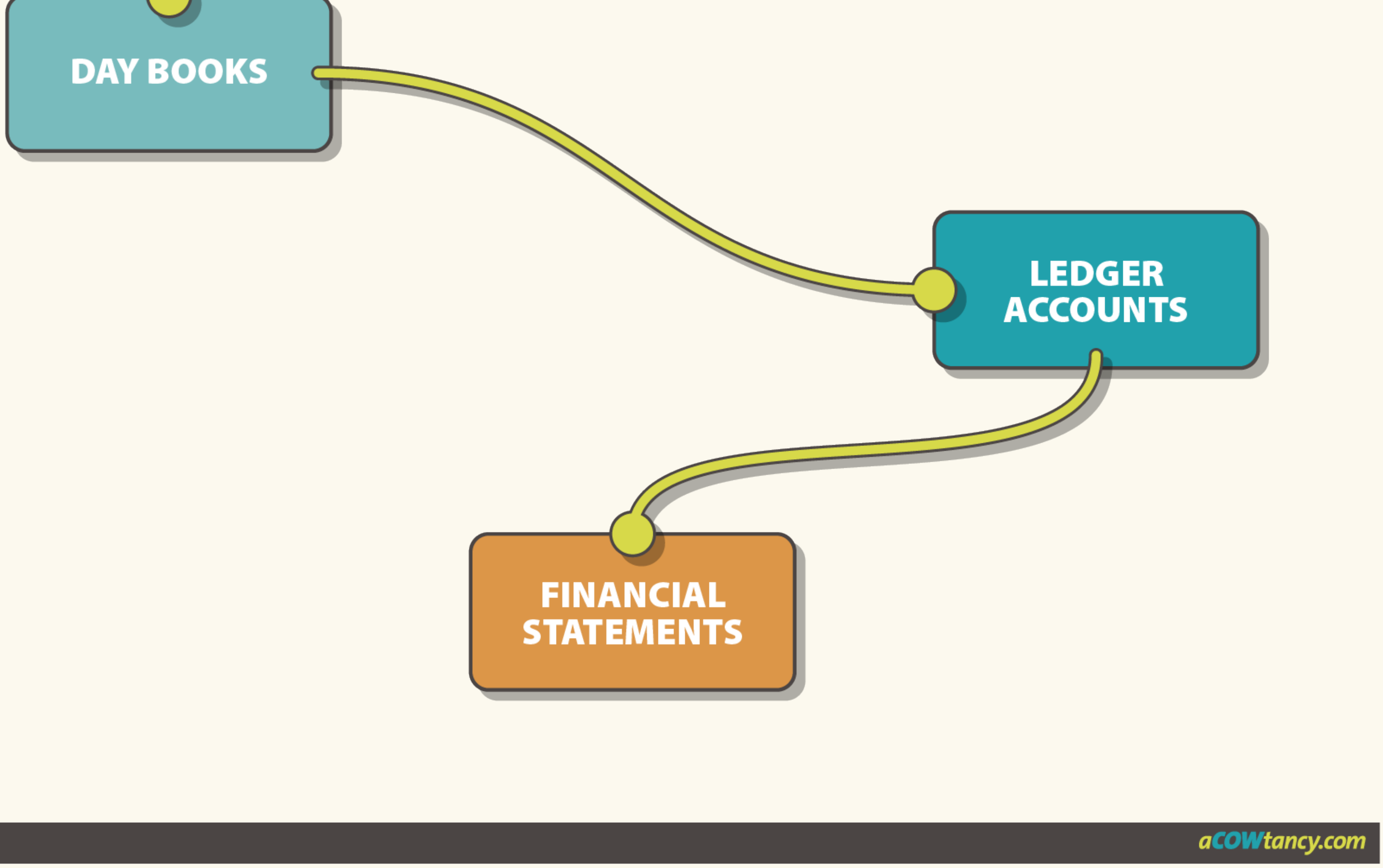
As the year goes by the actual sales will be compared with the budgeted sales, and the sales director will be asked to explain any large differences between the two (budget variances).

It is the management accounting section in the accounting function that has particular responsibility for budgeting and standard costing matters.

Main accounting & reporting functions

THE MAIN ACCOUNTING AND REPORTING FUNCTIONS IN BUSINESS





Whenever a business transaction takes place (a sale or a purchase, or payment of wages, etc.), there is a need to record the transaction in the accounting records.

The transaction is first entered in the books of prime entry (or 'books of original entry').

The main books of prime entry are:

- the purchases day book
- the sales day book
- the cash book
- the petty cash book
- the journal

On a regular basis (e.g. monthly), the day books are totaled and the totals for the period are entered into the ledger accounts.

For example, if the sales day book is totaled at the end of each month, the total sales for the month are posted into the ledger accounts of the business.

At the accounting year end of the business, the balance is calculated on each ledger account, and these balances are taken, with any necessary adjustments as recorded in the journal, to become the financial statements of the organisation for the period.

The main financial statements produced each year are:

- a **balance sheet statement of financial position** at the year end, showing the assets owned and the liabilities owed, and how these net assets are financed.

- an **income statement of comprehensive income** for the year, showing the revenues earned and the costs incurred, leading to the net profit or loss arising for the year.

- a **cash flow statement**, statement of cash flow summarising the cash receipts for the year and the cash payments paid out, to help readers of the accounts to understand the liquidity of the business.

Companies must send a copy of their financial statements to their shareholders each year.

Large companies must appoint external auditors each year to give their independent opinion on whether the published financial statements have been drawn up properly and whether they give a true and fair view.

GAAP (Generally Accepted Accounting Practice) is a set of rules governing accounting.

The rules may derive from:

- company law

- accounting standards

- international accounting standards and statutory requirements

- stock exchange requirements

Management Accounting & Performance management

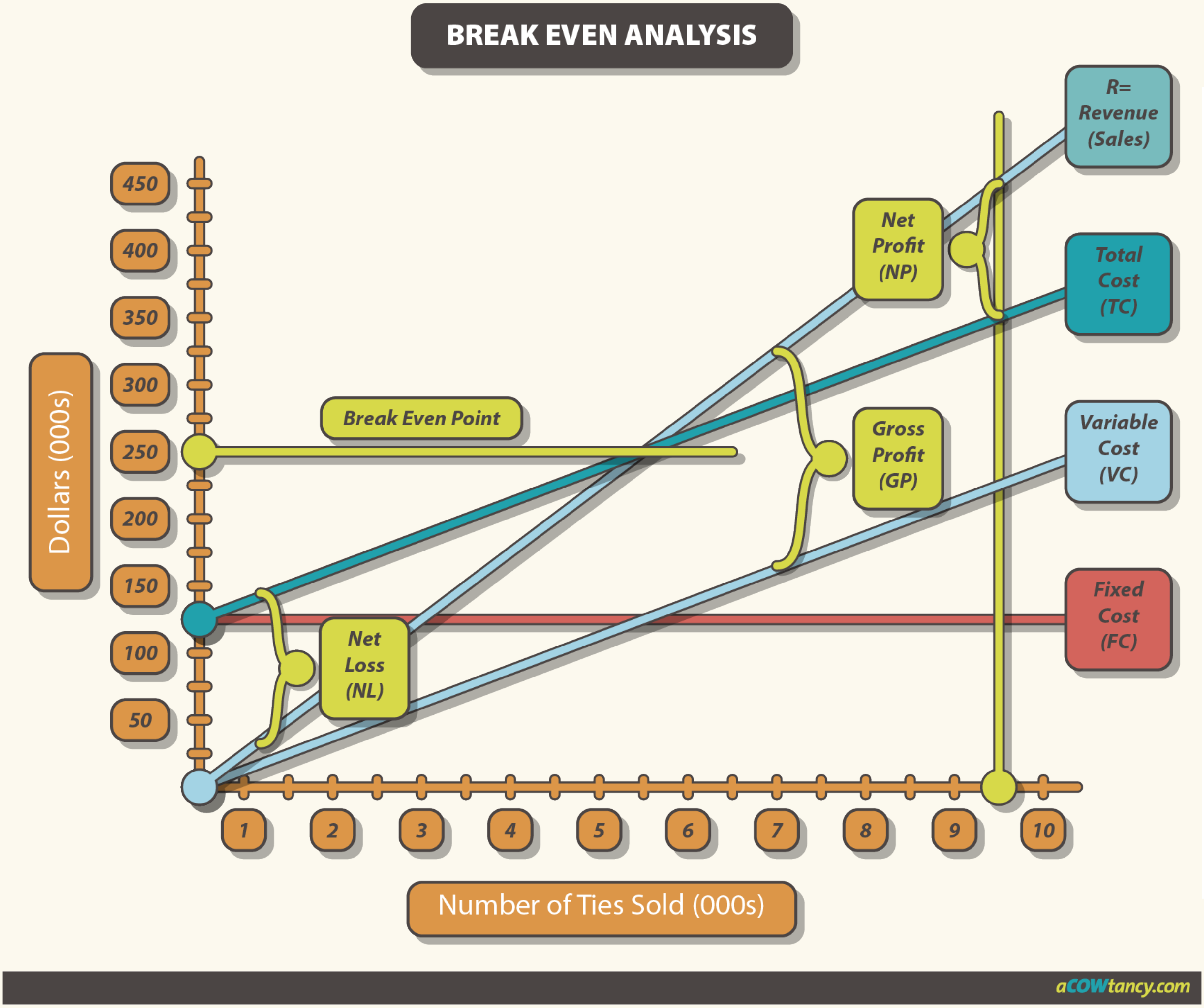
THE MAIN MANAGEMENT ACCOUNTING AND PERFORMANCE MANAGEMENT FUNCTIONS IN BUSINESS

	management accounting	**financial accounting**
why information is mainly produced	for internal use, eg. managers and employees	for external use, eg. shareholders creditors, banks, government
purpose of information	to aid planning, controlling and decision making	to record the financial performance in a period and the financial position at the end of the period.
legal requirement	none	limited companies must produce financial accounts
formats	management decide on the information that they require and the most useful way of presenting it	format and content of financial accounts must follow accounting standards and company law.
nature of information	financial and non-financial	mostly financial
time period	historical and forward looking	mainly a historical record

Examples of decision making that management accountants can help management with are:

Breakeven analysis

– what products or customer segments are currently profit making or loss making?



Key factor analysis

– should products be made in house with available resources or should their manufacture be outsourced to somewhere cheaper?

Pricing decisions

– should the prices of strongly selling items be increased to try and increase overall profit?

Investment appraisal

– should a new machine be bought for the factory to replace an old machine near the end of its useful life?

One should appreciate that simply preparing an income statement for the year, as a financial accountant does, is a valuable exercise in itself, but is of no immediate help in answering all the above sorts of questions.

Management accountants are needed to address these issues.

The **budgetary control** process involves planning and control.

Planning involves the setting of the various budgets (sales budget, manpower budget, etc.) for the appropriate future period.

All the budgets of the various parts of the business need to be coordinated, to ensure that they are complementary and in line with the overall company objectives and policies.

SUPER GADGETS
Sales budget schedule for year ending december 31, 20xx

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL	
Units	700	850	1,000	1,150	3,700	*Step 1*
Sales Price	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	*Step 2*
Estimated Sales	6,300	7,650	9,000	10,350	33,300	*Step 3*

Projected Sales Units:
1st Qtr - 700; 2nd Qtr - 850; 3rd Qtr - 1,000; 4th Qtr - 1,150
Projected Sales Price: \$9.00 per unit

SUPER GADGETS
Production budget schedule for year ending december 31, 20xx

	1ST QTR	2ND QTR	3RD QTR	4TH QTR	
Budgeted Unit Sales	700	850	1,000	1,150	Step 1
Desired Ending Inventory	300	350	400	450	Step 2
Total Units Needed	1,000	1,200	1,400	1,600	Step 3
Less Beginning Inventory	200	300	350	400	Step 4
Unit to Produce	800	900	1,050	1,200	Step 5

** rounded to the nearst 10*
1st Quarter Beginning Inventory = 200 units

Beginning Inventory is last month's Ending Inventory
Ending Inventory = 35% of next month's production needs
4th Quarter Ending Inventory = 0.35 X 1,280 units = 448 rounded to 450 units

Once the budgets have been set and agreed for the future period, the control element of budgetary control is ready to start.

This control involves comparison of the plan in the form of the budget with the actual results achieved for the budget period.

Any significant divergences between the budgeted and the actual figures should be reported to the appropriate manager so that any necessary action can be taken.

Main functions & treasury functions

The functions of the treasury

Treasury management is the corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows, and the complex strategies, policies and procedures of corporate finance.

The Association of Corporate Treasurers

cash management	the treasury section will monitor the company's cash balance and decide if it is advantageous to give/take settlement discounts to/from customers/suppliers even if that means the bank account will be overdrawn.
financing	the treasury section will monitor the company's investment/borrowings to ensure they gain as much interest income as possible and incur as little interest expense as possible.
foreign currency	the treasury section will monitor foreign exchange rates and try to manage the company's affairs so that it reduces losses due to changes in foreign exchange rates.

tax	the treasury section will try to manage the company's affairs to legally avoid as much tax as possible.

The role of the finance function in determining business tax liabilities

One of the roles of the finance function is to calculate the business tax liability and to mitigate that liability as far as possible within the law.

1. **Tax avoidance**

   is the legal use of the rules of the tax regime to one's own advantage, in order to reduce the amount of tax payable by means that are within the law.

2. **Tax evasion**

   is the use of illegal means to reduce one's tax liability, for example by deliberately misrepresenting the true state of your affairs to the tax authorities.

The directors of a company have a duty to their shareholders to maximise the post tax profits that are available for distribution as dividends to the shareholders, thus they have a duty to arrange the company's affairs to avoid taxes as far as possible.

However, dishonest reporting to the tax authorities (e.g. declaring less income than actually earned) would be tax evasion and a criminal offense.

While the traditional distinction between tax avoidance and tax evasion is fairly clear, recent authorities have introduced the idea of **tax mitigation** to mean conduct that **reduces tax liabilities** without frustrating the intentions of Parliament, while **tax avoidance** is used to describe schemes which, while they are legal, are **designed to defeat (nullify) the intentions of Parliament**.

Thus, once a tax avoidance scheme becomes public knowledge, Parliament will nearly always step in to change the law in order to stop the scheme from working.

Responsibilities of the finance function

The finance function of any company is responsible by law for:

1. maintaining proper accounting records that contain an accurate account of the income and expenses incurred, and the assets and

liabilities pertaining to the company.

2. calculating the tax liability arising from the profits earned each year, and paying amounts due to the tax authorities on a timely basis.

   In practice, most companies (particularly small companies) will seek the advice of external tax specialists to help them calculate their annual tax liability.

Investment appraisal and financing viable investments

Investment appraisal is concerned with long term investment decisions, such as whether to build a new factory, buy a new machine for the factory, buy a rival company, etc.

Typically money is paid out now, with an expectation of receiving cash inflows over a number of years in the future.

There are two questions to be addressed:

1. Is the possible investment opportunity worthwhile?
2. If so, then how is it to be financed?

For example, if a company is offered an investment opportunity that requires paying out €1m now, and will lead to cash inflows of €2m in one year's time and €2m in two years' time, during a period when interest rates are 5%, you can see that this investment is worthwhile in real terms.

If the €1m was invested to earn interest, it would be worth €1.05m in one year's time.

However the investment will give you €2m in one year's time and another €2m in two years' time.

So the investment is worthwhile.

The second question is how this €1m required now should be financed.

Perhaps there is a surplus €1m sitting unused in a bank account.

It is more likely that fresh funds will be required, possibly by **issuing new shares**, or possibly by **raising a loan** (e.g. from the bank).

There are advantages and disadvantages of each possibility.

Advantages of issuing new ordinary shares:

Dividends can be suspended if profits are low, whereas interest payments have to be paid each year.

The bank will typically require security on the company's assets before it will advance a loan.

Perhaps there are no suitable assets available.

Advantages of raising loan finance:

Interest payments are allowable against tax, whereas dividend payments are not an allowable deduction against tax

No change is required in the ownership of the company, which is governed by who owns the shares of the company.

Generally the finance function and the treasury function will work together in appraising possible investment opportunities and deciding on how they should be financed.

Management of working capital

A company must also decide on the appropriate level of investment in short term net assets, i.e. the levels of:

- inventory
- trade receivables (amounts due from debtors for sales on credit)
- cash balances
- trade payables (amounts due to creditors for purchases on credit).

There are advantages in holding large balances of each component of working capital, and advantages in holding small balances, as below.

	advantage of large balance	advantage of small balance
inventory	customers are happy since they can be immediately provided with good	low holding costs. less risk of obsolescence costs.
trade receivables	customers are happy since they like credit.	less risk of bad debts, good for cash flow.
cash	creditors are happy since bills can be paid promptly	more can be invested elsewhere to earn profits.
trade payables	preserves your own cash	suppliers are happy and may offer discounts

Audit & assuance

THE MAIN AUDIT AND ASSURANCE ROLES IN BUSINESS

Types of audit

1. **Internal auditing**

   is an independent activity, established by management to examine and evaluate the organisation's risk management processes and systems of control, and to make recommendations for the achievement of company objectives.

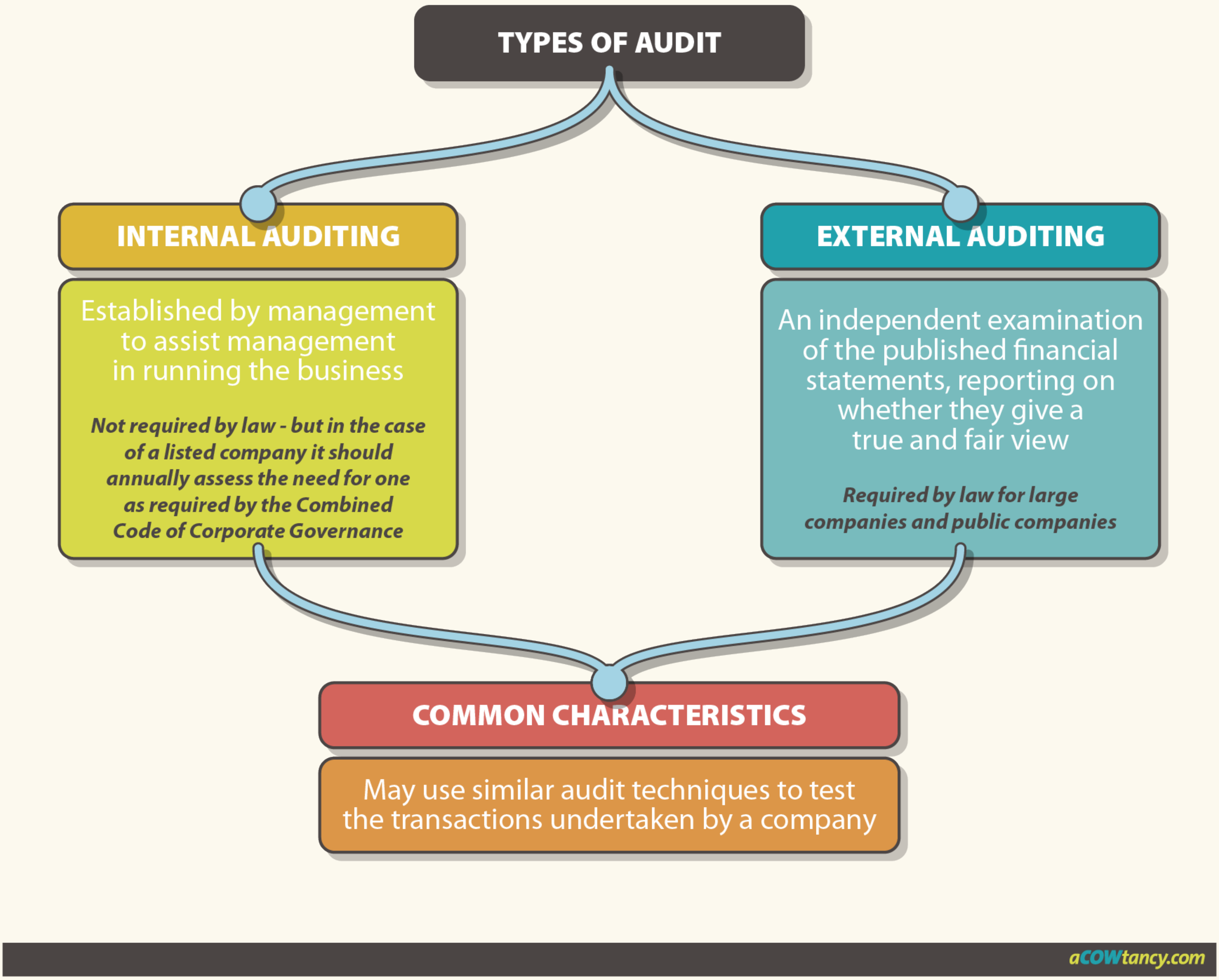
   Internal auditors have an unavoidable independence problem.

   They are employed by the management of the company and yet are expected to give an objective opinion on matters for which management are responsible.

2. **External auditing**

   is the independent examination of the evidence from which the financial statements are derived, in order to give the reader of those statements confidence as to the truth and fairness of the state of affairs which they disclose.

The fact that employees of the company know that their work may be inspected by external auditors may encourage them to document their work properly and dissuade them from fraud.



Internal & External Auditor

THE MAIN FUNCTIONS OF THE INTERNAL AUDITOR AND THE EXTERNAL AUDITOR

	internal auditing	external auditing
role	to advise management on whether the organisation has sound systems of internal controls to protect the organisation against loss	to provide an opinion to the shareholders on whether the financial statements give a true and fair view
legal basis	generally not a legal requirement. however the combined code on corporate governance recommends that if a listed company does not have an internal audit department, it should annually assess the need for one.	legal requirement for large companies, public companies and many public bodies
scope of work	determined by management. covers all areas of the organisation, operational as well as financial	determined by the auditor in order to carry out his statutory duty to report. financial focus
approach	increasingly risk based. assess risks. evaluate systems of control. test operations of systems. make recommendations for improvements	inreasingly risk based. test underlying transactions that form the basis of the financial statements.
responsibility	to advise and make recommendations on internal control and corporate governance.	to form an opinion on whether the financial statements give a true and fair view

Principles of law & regulation governing accounting & audit

Basic Legal Requirements

BASIC LEGAL REQUIREMENTS IN RELATION TO KEEPING AND SUBMITTING PROPER RECORDS AND PREPARING FINANCIAL ACCOUNTS

SUBMITTING PROPER RECORDS AND PREPARING FINANCIAL ACCOUNTS

Accountability refers to the state of being accountable, liable or answerable for actions and conduct.

In most countries there will be a government department set up to oversee the regulation and accounts of companies.

Thus, companies in a particular country are accountable to this government department.

In the UK, this government department (regulatory body) is **Companies House**.

Most countries have a law which governs the preparation of financial statements.

The name of this law varies from country to country, as does the content.

The companies' legislation in many commonwealth countries is based on the **UK Companies Act**.

The Companies' Acts in the UK require that financial statements are prepared which give a **true and fair view**, that is, they follow accounting standards, follow generally-accepted best practice and have information of sufficient quantity (adequately detailed) and quality (reasonably accurate) to satisfy the reasonable expectations of the users.

Under companies' legislation, **directors are responsible for producing financial statements** which give a true and fair view.

Consequences of Failing to Comply

THE BROAD CONSEQUENCES OF FAILING TO COMPLY WITH THE LEGAL REQUIREMENTS FOR MAINTAINING ACCOUNTING RECORDS

Failing to keep the proper accounting records and preparing financial statements that do not give a true and fair view are criminal offences and may lead to prosecution.

The responsibility is that of the directors and they can be fined for failure to comply.

There could be problems with the tax authorities if records are found to be incorrect; the tax authorities could investigate, and if the tax paid is too low, then, the company is guilty of tax evasion, which is a crime.

If the poor accounting records means that the financial statements do not give a true and fair view, and if this is detected by the auditor, the external auditor could give a qualified audit report.

This will damage the company's reputation and could make it harder to borrow money and to get shareholders to invest.

Poor accounting records could also mean that the company has inadequate records of receivables and payables.

It could therefore fail to collect money owed from customers which will damage cash flow, and pay suppliers on time which could lead to suppliers cancelling credit facilities.

These issues could eventually lead to financial difficulties and the company going out of business.

The accounting function which is very keen to be “self-regulated” has to follow the requirements of the Companies Act and tax authorities in order to avoid the company facing legal action.

By the 1970's, this meant that there was a multitude of different accounting standard worldwide making it very difficult for investors to compare the financial statements of companies in different countries.

In 1973, the **International Accounting Standards Committee (IASC)** was formed to try to harmonise (make similar) accounting standards in different countries.

In 2001 the IASC was replaced by the **International Accounting Standards Board (IASB)**.

International Accountancy Professions

HOW THE INTERNATIONAL ACCOUNTANCY PROFESSION REGULATES ITSELF THROUGH THE ESTABLISHMENT OF REPORTING STANDARDS AND THEIR MONITORING

The International Accounting Standards Board (IASB) is an independent, private-sector body that develops and approves **International Financial Reporting Standards (IFRS)**.

The IASB operates under the oversight of the **International Accounting Standards Committee Foundation (IASCF)**.

The international accountancy profession regulates itself through the **International Accounting Standards Board (IASB)**.

A new standard starts life as **Discussion Paper (DP)**.

The IASB assigns a working group to develop a new standard, following input from the **Standards Advisory Council (SAC)** and produces a first draft with some points for discussion.

This is then made available for public comment.

The views expressed on the Discussion Paper (DP) are taken into account in producing the next draft, known as **Exposure Draft (ED)**.

Again public comment is invited.

Fi6nally an IFRS is issued.

Fionally an IFRS is issued.

The IFRS may later be amended if necessary.

The objectives of the IASB are:

Under the IASCF Constitution, the **objectives of the IASB** are:

1. to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions
2. to promote the use and rigorous application of those standards; and
3. in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
4. to bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions

Sources and Purpose of Internal & External Informatio

Various Purposes of Financial Infromation

THE VARIOUS PURPOSES FOR WHICH THE FOLLOWING FINANCIAL INFORMATION IS REQUIRED

The Income Statement

> The income statement lists revenues and expenses and calculates the company's net income or net loss for a period of time.
>
> **Net income** means total revenues are greater than total expenses.
>
> **Net loss** means total expenses are greater than total revenues.
>
> It serves as the basic measuring stick of profitability.
>
> The income statement provides important financial information to business managers, investors, lenders, and analysts.

The Statement of Cash flows

The statement of cash flows reports the cash receipts, cash payments, and the net change in cash resulting from the operating, investing, and financing activities of a company during the period.

The cash flow statement is intended to:

1. provide information on a firm's liquidity and its ability to change cash flows in future circumstances
2. provide additional information for evaluating changes in assets, liabilities and equity
3. improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
4. indicate the amount, timing and probability of future cash flows

The Statement of Financial Position

> The statement of financial position shows what resources are owned by a business ("assets") and what it owes to other parties ("liabilities") at a particular point in time.
>
> It also shows how much has been invested in the business and what the sources of that investment finance were.

Main Purposes of Management Accounting Reports

THE MAIN PURPOSES OF THE FOLLOWING TYPES OF MANAGEMENT ACCOUNTING REPORTS

Cost Schedules

Cost schedules are used to calculate the cost of producing products for a period of time.

The cost of goods amount is transferred to the finished goods inventory account during the period and is used in calculating cost of goods sold on the income statement.

- Wages and salaries

Wages and salaries

Departmental costs

Cost of sales

Selling expenses

Administration costs

Budgets

> Budgets are part of a company's planning system.
>
> It is a set of interlinked plans that quantitatively describe an entity's projected future operations.
>
> A budget is used as a yardstick against which to measure actual operating results, for the allocation of funding, and as a plan for future operations.

Variance Reports

> Once a budget is established, one of the main financial tasks is to explain variances between actual performance and the budget.
>
> It may be things have changed from the budget.
>
> Volume may have changed increased, or there may have been unexpected price increases.

Financial Systems, procedures and related IT applications

Objectives & Policies

AN ORGANISATION'S SYSTEM REQUIREMENTS IN RELATION TO THE OBJECTIVES AND POLICIES OF THE ORGANISATION

Accounting systems lay down procedures and guidelines that reflect the Company's policies.

term	meaning
system	a group of independent but interrelated elements comprising a unified whole, a process for obtaining an objective
policy	a guiding principle
procedure	a series of acts, a set sequence of steps
guideline	a recommended approach for conducting a task

In an organisation there are many transactions and roles therefore, an organisation may opt to implement more formal rules and procedures policy to ensure the management are able to keep control of the activities.

For example, having in place an "authorisation policy" for the purchase of accepting new customers, new suppliers etc.

In a smaller organisation, such procedures and rules can be communicated orally by the management, however in a larger organisation this might not be impossible therefore a more formal procedure may be needed.

This could be in the shape of a **policy manual**.

Effective systems and procedures should ensure that:

- Relationships with customers are effectively managed
- Relationships with suppliers are effectively managed
- Office functions interrelate properly and are not duplicate

Main Financial Systems

THE MAIN FINANCIAL SYSTEMS USED WITHIN AN ORGANISATION

Purchases and sales invoicing and Credit control

Purchasing is an important area to control particularly if items are of a high value.

The organisation is likely to insist on a specific authorisation procedure especially for the purchase of non-current assets.

Inputs to a purchase ledger system include:

1. Details of purchases recorded on invoices
2. Details of returns to suppliers for which credit notes are received
3. Details of payments to suppliers

features	aims
ordering	* all orders for, and, expenditure on, goods and services are properly authorised, and are for goods and services that are actually received and are for the company. * orders are only made to authorised suppliers * orders are made at competitive prices
receipts & invoices	* goods/services used only for the organisations purposes * goods/services only accepted if ordered & authorised * goods/services are accurately recorded * liabilities recognised for all goods/service * credits for which the business is due are claimed * a receipt is needed to ensure a business establish a liability
accounting	* expenditure is authorised - goods actually received * expenditure is recorded in the nominal and purchase ledger

	* credit notes recorded * entries made to the correct ledger * cut-off is applied correctly to the ledger

For sales, businesses want only to give credit to those customers who can settle their debts.

The sales ledger will help track what is owed by each customer.

Inputs to a sales ledger system include:

1. **Amendments** – customer details, new customers etc
2. **Transaction data** – Sales, customer payments, credit notes

features	**aims**
ordering & granting of credit	* goods/service to only to customers with good credit rating * cutomers pay promptly * orders recorded correctly * orders are fulfilled
despatch & invoicing	* despatches of goods are recorded * goods/services sold are correctly invoiced * all invoices raise relate to goods/service supplied * credit notes only given for valid reasons
recording,accounting & credit control	* sales invoiced and recorded * credit notes issues and recorded * entries in sales ledger made to the correct ledger * cut-off applied * doubtful debtors identified

Payroll

The key functions of payroll are:

The key functions of payroll are:

1. Documents and authorisation of staff changes
2. Calculation of wages and salaries
3. Payment of wages and salaries
4. Authorisation of deductions

features	aims
setting of wages & salaries	* employees are only paid for work they have done * gross pay calculated correctly and authorised
recording of wages & salaries	* gross/net pay and deductions are accurately recorded * wages & salaries paid are recorded correctly in the bank and cash records * wages & salaries are correctly recorded in the general ledger
payment of wages & salaries	* the correct employees are paid
deductions	* statuary and non-statuary deductions have been calculated correctly and authorised * the correct amounts are paid to the taxation authorities

Cash & Working Capital

Cash and petty cash and therefore working capital must be regularly reconciled.

The forms of payment to a business could be through:

1. Company cheque
2. Bank transfer
3. Internet transfer

4. Standing order/direct debit

A control of receipt is fundamental if the company is to keep a healthy cash/working capital position.

Therefore:

1. Receipts must be banked promptly
2. The record of receipts must be complete
3. The loss of receipts through theft or accident must be prevented

Cash controls must be strict.

They should apply to the smallest and the largest of transactions.

The three main steps to applying control over cash/working capital payments are:

1. Documentary evidence to prove that the purchase is required
2. An authorisation of the payment
3. Restricting the authority to actually make the payment to a certain number of individuals

Policies & Procedures for handling Cash

WHY IS IT IMPORTANT TO ADHERE TO POLICIES AND PROCEDURES FOR HANDLING CLIENT'S MONEY

Financial transactions are properly carried out

The assets of the business are safeguarded

- Accurate and timely management information is produced

Weaknesses in Accounting Systems

WEAKNESSES, POTENTIAL FOR ERROR AND INEFFICIENCIES IN ACCOUNTING SYSTEMS

- Cash or cheques going missing
- Excessive bad or doubtful debts
- Customers not paying within credit terms
- Suppliers not being paid on time
- Unauthorized purchases being made
- Failure to produce accounts or other reports at the specified time

Improvements to Accounting Systems

IMPROVEMENTS TO ACCOUNTING SYSTEMS TO PREVENT ERROR AND FRAUD AND TO IMPROVE OVERALL EFFICIENCY

- Cheques over a certain amount of money need two signatories

Cheques over a certain amount of money need two signatories

Authorization limits for purchase orders

Authorization for petty cash and expenses claims

Effective credit control procedures

Computer security procedures and access levels

Controls & Procedure in Business & IT Systems

WHY APPROPRIATE CONTROLS ARE NECESSARY IN RELATION TO BUSINESS AND I T SYSTEMS AND PROCEDURES

Management must have control over the following areas:

Sales on credit made to new customers

– if a sale is made on credit the goods are sent out with a promise from the customer to pay in the future therefore the management of the business must be as certain as they can be that this new customer can, and will, pay for the goods which means that the credit controller must be happy that the new customer has a good credit rating and is fairly certain to pay for the goods

Purchases of goods or non-current assets and payments for expenses

– this is money going out of the business therefore it is essential that these are necessary and valid expenditures so a responsible official must authorize them

Payroll

– one of the largest payments made by most organizations is that of the wages bill for their employees.

It is essential that only bona fide employees are paid for the actual hours that they have worked therefore authorization of the payroll is a very important part of any business

Computers & IT Software Applications

BUSINESS USES OF COMPUTERS AND IT SOFTWARE APPLICATIONS AND THE RELATIVE BENEFITS AND LIMITATIONS OF MANUAL AND AUTOMATED FINANCIAL SYTSTEMS THAT MAY BE USED IN AN ORGANISATION

Spreadsheet application

> “A spreadsheet is essentially an electronic piece of paper divided into rows and columns with a built in pencil, eraser and calculator. It provides an easy way of performing numerical calculations”
>
> Spreadsheets have many uses within the business arena.
>
> From creating balance sheets, income statements, financial accounts etc but also help develop an informed and structured decision.

Database system

A database has many uses and consists of “pooled” data available to not only the accounts department but usually the whole organisations.

There are three main virtues of a database:

1. Common data for all users

2. That extra effort is required in different departments to avoid duplication

3. Conflicts between departments who have conflicting data are avoided

A database should have 4 main objectives:

1. Shared information. Different users within different departments should be able to access the same information

2. The integrity of the database must be preserved

2. The integrity of the database must be preserved.

3. The database should meet the requirements of all users

4. The database should be capable of evolving

manual system	
advantages	**disadvantages**
low capital costs	slower at performing calculations
no computer experience required	more likely to make calculations errors
easy to correct errors (whitening fluid)	analysis of information is more time-consuming
can review transactions for logical sense while entering/performing calculations	less easy to audit

automated system	
advantages	**disadvantages**
quicker	capital cost
can perform more complex calculations	training cost, especially for older staff
fewer errors	less easy to correct errors
more security (passwords)	systems can crash

easier to sort and analyse data	

Internal Controls, authorisation, security, & compliance

Internal control & Internal check

INTERNAL CONTROL AND INTERNAL CHECK

Internal control

is the process designed and affected by management to provide reasonable assurance on: (Definition based on the Auditing Practices Board 'Glossary of Terms')

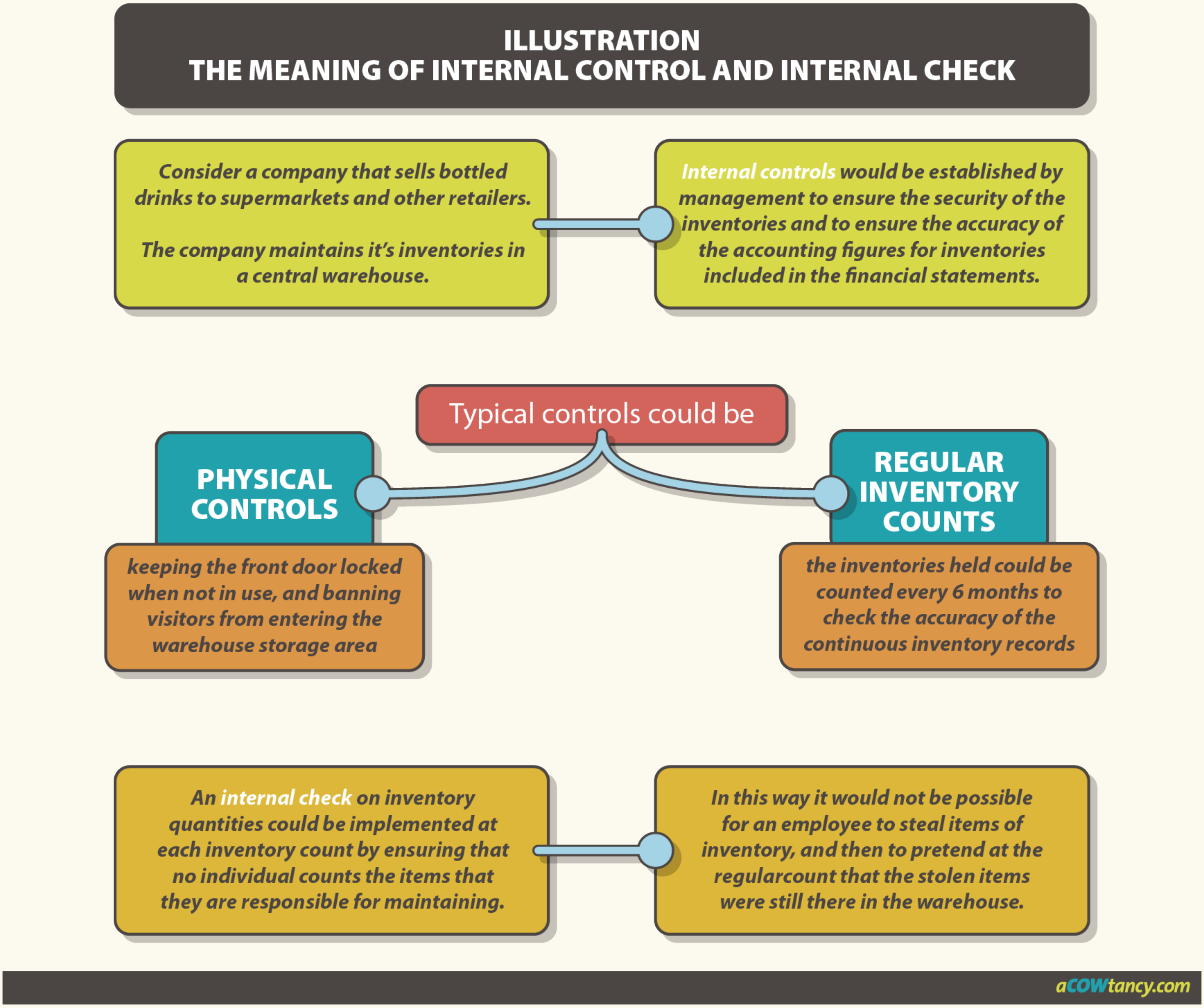
- reliability of financial reporting
- effectiveness and efficiency of operations, and
- compliance with applicable laws and regulations.

Internal check is an element of internal control, concerned with ensuring that no single task is executed from start to finish by only one person.

Each individual's work is subject to an independent check by another person in the course of that other person's duties.

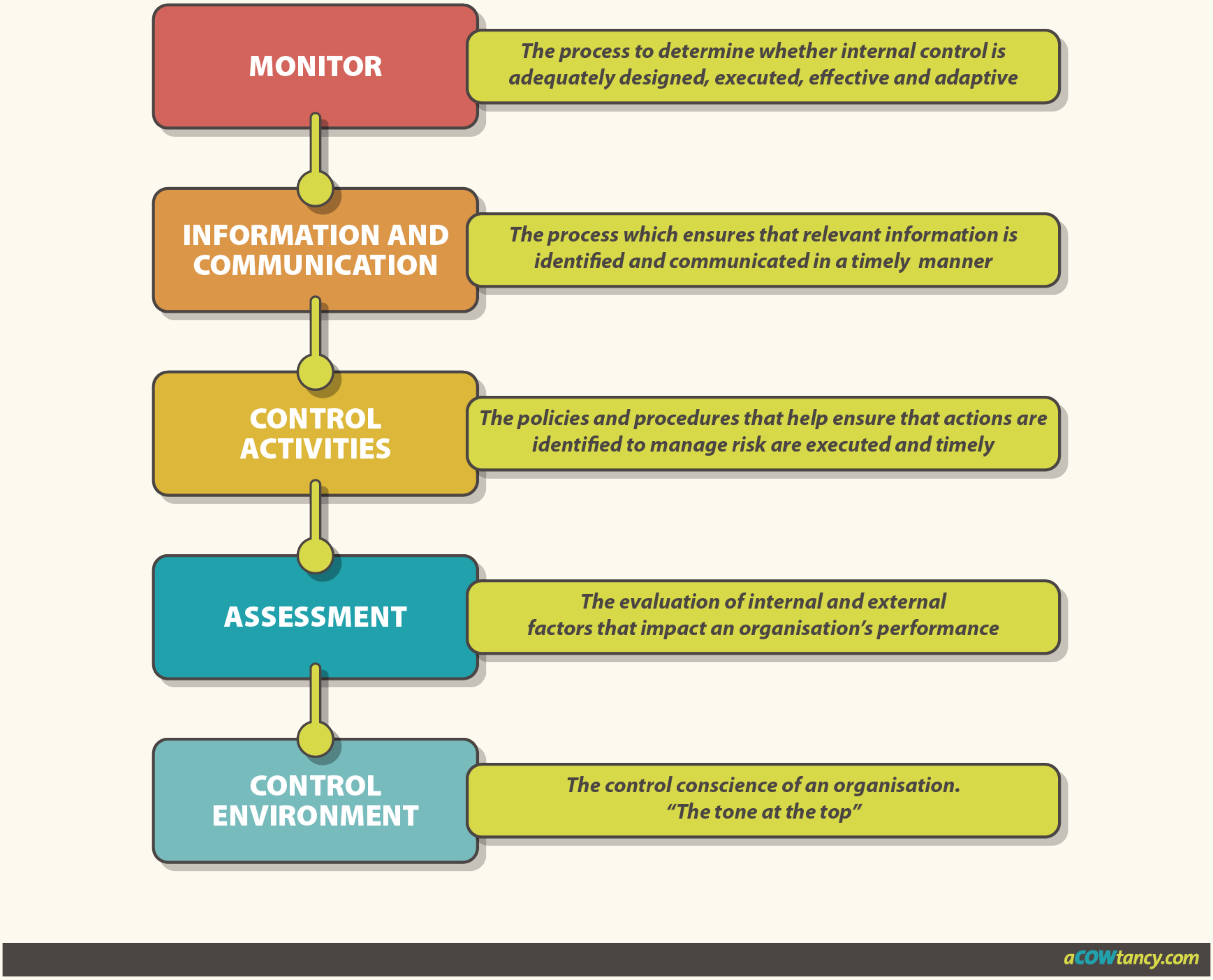
The purpose of internal checking is to reduce the likelihood of errors and fraud.

Errors should be reduced since an employee will take more care over their work if they know it is going to be looked at by someone else.



Components of Internal Control

- the control environment
- the entity's risk assessment process
- control activities
- the information system relevant to financial reporting
- monitoring of controls.



The term 'internal control' can refer to any of these five components.

The control environment is the overall attitude of management regarding internal controls and their importance.

It encompasses management's philosophy, e.g. a commitment to integrity and ethical values, a formal organisation structure and proper training of staff.

THE IMPORTANCE OF INTERNAL FINANCIAL CONTROLS IN AN ORGANISATION AND THE FEATURES OF EFFECTIVE INTERNAL FINANCIAL CONTROL PROCEDURES IN AN ORGANISATION

The purpose of internal control is implied to help management achieve the entity’s objectives, especially in terms of ensuring:

- the orderly and efficient conduct of the business
- the safeguarding of assets
- the prevention and detection of fraud and error
- the accuracy and completeness of the accounting records, and
- the timely preparation of reliable financial information.

The importance of internal controls

Internal controls are there to prevent risks occurring or to minimise the impact of risks (i.e. to help prevent things going wrong).

Even when controls are in place documents may still get lost or portable assets may go missing.

The level and extent of internal controls required depend on what the risks are if such controls fail.

It is particularly important that stringent controls exist where there are associated legal requirements.

Most internal controls are of great interest to the external auditor.

If internal controls are believed to be very reliable from the external auditor point of view, that will mean that the amount of **substantive testing (tests to identify errors and omissions in financial records)** of transactions and resultant balances in the ledger accounts will be reduced.

Internal controls are fundamental to internal auditors.

They have to make decisions on the extent of reliance on controls to manage risks to provide assurance that the corporate governance requirements as being met.

Responsibilities of Management

THE RESPONSIBILITIES OF MANAGEMENT FOR INTERNAL FINANCIAL CONTROL

It is management's responsibility to establish proper internal control arrangements within their company.

This responsibility may derive from statutory requirements or from general corporate governance arrangements.

This requirement is set out more clearly in the Combined Code on Corporate Governance.

Principle C2 of the Code states that: 'The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.'

Provision C2.1 of the Code goes on to explain that the board should, at least annually, conduct a review of the effectiveness of the system of internal controls and should report to shareholders that they have done so.

This review must cover all material controls, including financial, operational and compliance controls and risk management systems.

In its annual assessment of internal control, the board should consider:

The changes in the nature and extent of significant risks since the last annual assessment.

The scope of management's ongoing monitoring of risks, including the reports management has made to the board and any relevant work by internal audit.

The incidence of any significant control failings or weaknesses that have been identified during the year.

Internal financial control is part of overall internal control.

Although the auditors, for example, will be particularly interested in testing and reporting on the financial controls, the board is responsible for all the controls in the company: financial, operational and compliance controls.

Security of IT Sytems & Software

GENERAL AND APPLICATION SYSTEMS CONTROLS IN BUSINESS

Different books identify different categories of control activities.

One possibility is:

Authorisation

Comparison

Computer controls

Arithmetical controls (include pre-list, post-lists and control totals)

Maintaining a trial balance and control accounts

Accounting reconciliations

Physical controls.

(Use the mnemonic ACCA MAP to remember these categories.)

Monitoring of controls is a process to assess the quality of internal control performance over time.

It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Compliance failures may arise because of lack of staff motivation or through poor training and supervision.

Alternative analysis of internal controls

1. **Preventive controls**

   These are controls that prevent risks occurring.

   For example, authorisation controls should prevent fraudulent or erroneous transactions taking place.

   Other preventive controls include segregation of duties, recruiting and training the right staff and having an effective control culture.

2. **Detective controls**

   These are controls that detect if any problems have occurred.

   They are designed to pick up errors that have not been prevented.

   These could be exception reports that reveal that controls have been circumvented (for example, large amounts paid without being authorised).

   Other examples could include reconciliations, supervision and internal checks.

3. **Corrective controls**

   These are controls that address any problems that have occurred.

   Basically, corrective controls are aimed at restoring the system to its expected state.

   Having backup configuration files or hard drive images that can be reloaded to restore the state are both good examples.

   So where problems are identified, the controls ensure that they are properly rectified.

Clearly the most powerful type of control is preventative.

It is more effective to have a control that stops problems occurring rather than to detect or correct them once they have occurred.

There is always a possibility that it is too late to sort out the problem.

Other Classifications

classifications	details
discretionary	controls which are subject to human discretion
non-discretionary	controls automatically provided by the system and cannot be overridden eg. use of password
voluntary	controls chosen by the organization to support management
mandated	required by law and imposed by external authorities
manual	these controls demonstrate a one-to-one relationship between the processing functions and controls and the human functions
automated	these controls are programmed procedures designed to prevent, detect and correct errors all the way through processing

Types of Audit

Internal audit is a management control, as it is a tool used to ensure that other internal controls are working satisfactory.

Different types of audit can be distinguished:

1. **Operational audit**

   – concerned with overall management's performance including outputs of the system and efficiency of the organization.

2. **Systems audit**

   – based on testing and evaluation of the internal controls including compliance tests to see that controls are applied as they should and substantive tests used to discover errors and omissions.

3. **Transaction audit**
4. **Social audit**
5. **Management investigations**.

Fraud & Fradulent behaviour

Fraud & their Prevention in Business

THE CIRCUMSTANCES

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Auditing Practices Board – Glossary of Terms)

For example, managers may deliberately select inappropriate accounting policies.

Employees may seize the proceeds of cash sales and omit to enter the sale into the accounting records.

Third parties may send bogus (fake) invoices to the company, hoping that they will be paid in error.

The prerequisites of fraud

There are three prerequisites for fraud to occur: **dishonesty, opportunity and motive**.

All three are usually required – for example an honest employee is unlikely to commit fraud even if given the opportunity and motive.

Fraud is more likely to occur in a business environment with poor or no controls.

If the control environment is soft and management has implemented few specific control activities, then the potential for fraud is high.

Factors that might increase the risk of fraud and error:

- management domination by one person, or a small group of people
- unnecessarily complex corporate structure
- high turnover rate of key accounting personnel
- personnel who do not take leave/holidays

understaffed accounting department

volatile business environment

inadequate working capital

deteriorating quality of earnings

inadequate segregation of duties

lack of monitoring of control systems

unusual transactions – in cash, or direct to numbered bank accounts

payments for services disproportionate to effort

significant transactions with related parties

inadequate IT systems.

Different Types of Fraud

IN THE ORGANISATION AND THE IMPLICATIONS OF FRAUD FOR THE ORGANISATION

Example fraud by management

Financial statement fraud, e.g. 'window dressing' and 'cooking the books'

* Window Dressing/Cooking the books are the deceptive practices of using accounting "tricks" to make a company's balance sheet and income statement appear better than they really are.

A normally used trick is to enter transactions before year end and then they are reversed out after the year end.

Misappropriation of assets – stealing physical assets or selling property

False insurance claims

Using the company's assets for personal use.

Example frauds by employees

Sales ledger fraud – 'teeming and lading'

* Teeming and lading is a type of fraud normally on the sales ledger whereby the receipts of later debtors are allocated to pay off earlier debtors

Purchase ledger fraud

Skimming schemes

* Skimming schemes is when the fraudster diverts small amounts from a large number of transactions, believing that no one will bother to investigate the small differences individually, although in the aggregate they can total to a worthwhile sum.

Payroll fraud.

Example frauds by third parties

False billing fraud – third parties sending bogus invoices to the company

Bank account fraud

Advance fee fraud (419 fraud)

* Advance fee fraud is a trick where a company is invited to pay a modest fee up front in the promise of being paid a large amount in the future.

Ponzi/Pyramid schemes

* Ponzi/Pyramid schemes are fraudulent investments offers that involve paying abnormally high returns to early investors out of the new money paid in by subsequent investors, rather than from any genuine underlying business.

The possible implications of fraud to the company

There is a spectrum of implications of fraud, including:

1. Misuse of assets
2. Loss of assets
3. Financial difficulties
4. Collapse of the company

Role & Duties of Managers in Fraud Detection

THE FRAUD DETECTION AND PREVENTION PROCESS

The duties to prevent and detect fraud can be split between:

the duties of the board of directors

the duties of the audit committee

the duties of employees generally (including senior employees below board level).

The duties of the board of directors

> The board of directors is required by the Combined Code to maintain a sound system of internal control.
>
> At least annually, the board should conduct a review of the effectiveness of the internal control system and should report to shareholders.

The duties of the audit committee

> The audit committee is required by the Combined Code to monitor and review the company's internal control and risk management systems.
>
> This should ensure the continuing effectiveness of the controls in preventing and detecting fraud.

The duties of employees

> The specific duties of employees are set out in their contract of employment and in what they are told to do by their supervisors, but there will always be an implied duty to act honestly and to report suspected or actual frauds encountered to supervisors.
>
> Fraud prevention and detection is the responsibility of every employee in a company, not just the board of directors.

Money Laundering

Illegally-Obtained Money

Money laundering

is the practice of covering the origins of illegally-obtained money.

Ultimately, it is the process by which the proceeds of crime are made to appear legitimate.

Laundering allows criminals to transform illegally obtained gain into seemingly legitimate funds.

It seems to be a worldwide problem.

Criminals want their illegal funds laundered because they can then move their money through society freely, without fear that the funds will be traced to their criminal deeds.

In addition, laundering prevents the funds from being confiscated by the police.

Money Laundering Regulations

RECOGNISED OFFENCES & METHODS OF DETECTING AND PREVENTING MONEY LAUNDERING

The biggest source of illicit profits comes from the drugs' trade and it was drug trafficking that provided the initial catalyst for concerted international efforts against money laundering.

The drugs' industry is a highly cash intensive business and "in the case of cocaine and heroin the physical volume of notes received is much larger than the volume of drugs themselves".

In order to rid themselves of this large burden it is necessary to use the financial services industry and in particular, deposit-taking institutions.

Money laundering usually consists of three steps:

1. placement,
2. layering and
3. integration.

Placement

is the depositing of funds in financial institutions or the conversion of cash into negotiable instruments.

Placement is the most difficult step.

> To disguise criminal activity, launderers route cash through a "front" operation; that is, a business such as a cheque-cashing service or a jewellery store.
>
> Another option is to convert the cash into negotiable instruments, such as money orders (similar to a certified cheque) or traveller's cheques (fixed-amount cheque designed to allow the person signing it to make an unconditional payment to someone else as a result of having paid the issuer for that privilege).
>
> The entry of cash into the financial system, (placement' stage) is where the launderer is most vulnerable to detection.
>
> Because of the large amounts of cash involved it is extremely hard to place it into a bank account legitimately

Layering

involves the wire transfer of funds through a series of accounts in an attempt to hide the funds' true origins.

> This often means transferring funds to countries outside the country that have strict bank-secrecy laws.
>
> Once deposited in a foreign bank, the funds can be moved through accounts of "shell" corporations, which exist solely for laundering purposes.
>
> The high daily volume of wire transfers makes it difficult for law enforcement agencies to trace these transactions.
>
> Transfers to and from the financial system are also under the umbrella of 'reporting of suspicious transactions' and this can provide useful information on the 'layering' stage of the money laundering process.
>
> The keeping of comprehensive transaction records (part of the procedures) by financial organisations provides a useful audit trail and gives useful information on people and organisations involved in laundering schemes once discovered.

Integration

> involves the movement of layered funds, which are no longer traceable to their criminal origin, into the financial world, where they are mixed with funds of legitimate origin

Reporting Suspicions of Money Laundering

REPORTED TO THE APPROPRIATE AUTHORITIES

Today, most financial institutions globally, and many non-financial institutions, are required to identify and report transactions of a suspicious nature to the financial intelligence unit in the respective country.

For example, a bank must perform due diligence by verifying a customer's identity and monitor transactions for suspicious activity.

To do this, many financial institutions utilize the services of special software to gather information about high risk individuals and organizations.

If a suspicious transaction is identified then this should be reported immediately either to a nominated Money Laundering

Reporting Officer (MLRO) within their organisation or SOCA (Serious Organised Crime Agency)

For Accountants, the most worrying aspect of the law on money laundering relates to the offence of **failing to disclose**.

It is relatively straightforward to identify actual “knowledge” of money laundering and therefore of the need to disclose it, but the term “suspicion” of money laundering is not defined.

The nearest there is to a definition is that suspicion is more than mere speculation but falls short of proof or knowledge.

It is a question of judgement.

Leading and Mangaing Individuals and Teams

Leadership, management and supervision

Terms Definition & Distinction

LEADERSHIP, MANAGEMENT AND SUPERVISION

Leadership

A basic definition of a leader is **‘someone who exercises influence over other people’**.

This can be expanded into a more complex definition: **‘Leadership is an interpersonal influence directed toward the achievement of a goal or goals’**.

> **Interpersonal** – between people.
>
> **Influence** – the power to affect others.
>
> **Goal** – something that we need/want to achieve.

Leadership is a conscious activity and is concerned with setting goals and inspiring people to provide commitment to achieve the organisation’s goals.

The leader accepts responsibility for the accomplishment of group objectives.

S/he must discharge this responsibility to the satisfaction of the group; otherwise, there will be a loss of effectiveness.

The organisation of effective teamwork requires an acknowledgment by the leader that he cannot get results unaided; that s/he does not himself know all the answers.

Managers

All managers have in common the overall aim of getting things done, delegating to other people rather than doing everything themselves.

It can be defined as **'the effective use and coordination of resources such as capital, plant, materials and labour to achieve defined objectives with maximum efficiency'**.

Management can be considered as:

1. **Function**

   – the responsibility for directing and running an organisation

2. **Process**

   – it incorporates activities by which internal and external resources are combined to achieve the objectives of the organisations. These resources include people, money, machines and materials.

3. **Discipline**

   – this is both an art and a science in the study of management

4. **Profession**

   - this position is achieved only after several years of study and advanced training and education.

Supervision

The supervisor is part of the management team.

> The supervisor is a person given authority for planning and controlling the work of their group, but all they can delegate to the group is the work itself.
>
> A supervisor, therefore, is a type of manager whose main role is to ensure that specified tasks are performed correctly and efficiently by a defined group of people.
>
> In general, supervisors will also be doing operations work and giving advice to others to help in solving problems.

If the more senior manager is absent, the supervisor will take over the role.

A leader can be a manager, but a manager is not necessarily a leader.

If a manager is able to influence people to achieve the goals of the organisation, without using formal authority to do so, then the manager is demonstrating leadership.

Management

THE NATURE OF MANAGEMENT

Some people assert that one needs no knowledge of theory to solve problems in the practical world of business.

In this view, management is a matter of common sense, and theory either is not needed at all or is unimportant.

Management is entirely an art and not a science.

Such views proceed from **MISTAKEN IDEAS** about the nature and role of theory and its relation to action and decision in the real world.

Scientific/Classical theories of management – Fayol and Taylor

A man of considerable influence in the scientific management movement is **Fredrick W. Taylor**.

Taylor believed that managers should accept special responsibilities for planning, directing and organising work.

He deemed it essential, to separate the planning of work from its execution, so that each individual could work at his best efficiency and could be compensated accordingly.

He thought that management should develop a science of doing work (central authority) and that each kind of work had its own science.

Henri Fayol was a key figure in the turn-of-the-century Classical School of management theory.

He saw a manager's job as:

- planning
- organising
- commanding
- coordinating activities
- controlling performance

These activities are very task-oriented, rather than people-oriented (modern-view).

Henri Fayol realised that organisations were becoming more complex and required their managers to work more professionally.

His motivation was to create a theoretical foundation for an educational program for managers who lacked formal training in those days.

Basing his work on his experience as a successful managing director of a mining company, he developed generic 'Principles of Management' to help organisations achieve optimum performance working toward their goals and company objectives.

Fayol described fourteen Principles of Management

1. **Division of labour**

   Achieving the maximum efficiency from labour through specialisation across all aspects of organisation (commercial, financial, security, accounting, managerial) rather than just focusing purely on areas of technical activities.

2. **Establishment of authority**

   Having the legitimate standing to give orders – linked with responsibility.

3. **Enforcement of discipline**

   Upholding discipline is a core activity when running an organisation, although its form varies across organisations.

   Management can sanction employees with warnings, penalties, demotions or even dismissals.

4. **Unity of command**

   An employee should receive orders from **one supervisor only**.

Dual command generates tension, confusion and conflict, and results diluted responsibility and blurred communication.

5. **Unity of direction**

   A common objective for a group of activities is an essential condition to obtaining unity of action, coordination of strength and the focusing of effort.

6. **Subordination of individual interest to the interests of the organisation**

   Reconciling general interest with that of the group or the individual is one of the greatest problems managers face and applies to the relationship between staff and supervisor as well.

   Too often, managers pursue personal interest rather than the common good.

7. **Fair remuneration for all**

   Should be fair to both the recipient and the firm

8. **Centralisation**

   Fayol choose the 'living organism' as metaphor for an organisation when considering centralisation versus decentralisation.

   The level of centralisation is a matter of proportion as is the division of labour.

9. **Adoption of a 'scalar chain'**

   The chain of supervision that connects the managing director to the lowest ranks.

   Fayol combined hierarchy that makes employees aware of their place and duties, with an organisation's lines of communication.

10. **A sense of order and purpose**

    Workers and materials should be in their prescribed place.

11. **Equity**

    Equity is the combination of justice and kindness.

    Managers must constantly apply the correct balance between equity and discipline.

12. **Stability of jobs and positions/Tenure of personnel**

    Both staff and management require suitable induction periods to familiarise themselves with new work habits and situations.

13. **Development of individual initiative**

    Initiative should be encouraged within the boundaries of authority and discipline.

14. **Esprit de Corps**

    Building and maintaining staff and management morale and unity.

    Harmony and teamwork should be encouraged in the organisation.

The human relations school – Mayo

Worried by the failure of the industrial engineering approach to achieve high productivity, the Western Electric Company of Chicago decided to call in industrial psychologists that came along under the guidance of **Elton Mayo**, of Harvard University.

For five years, from 1927 to 1932, the team conducted a series of investigations covering such factors as payment schemes, rest pauses, and informal group controls over output.

The researchers concluded that group relationships and management worker communication were far more important in determining employee behaviour than were physical conditions and the working practices imposed by management.

Also, wage levels were not the dominant motivating factor for most workers.

Further research established the following propositions of the human relations school.

- Employee behaviour depends primarily on the social and organisational circumstances of work.

- Leadership style, group cohesion and job satisfaction are major determinants of the outputs of the working group.

- Employees work better if they are given a wide range of tasks to complete.

- Standards set internally by a working group influence employee attitudes and perspectives more than standards set by management.

So, why is the human relations approach useful?

The school explicitly recognised the role of interpersonal relations in determining workplace behaviour, and it demonstrated that factors other than pay can motivate workers.

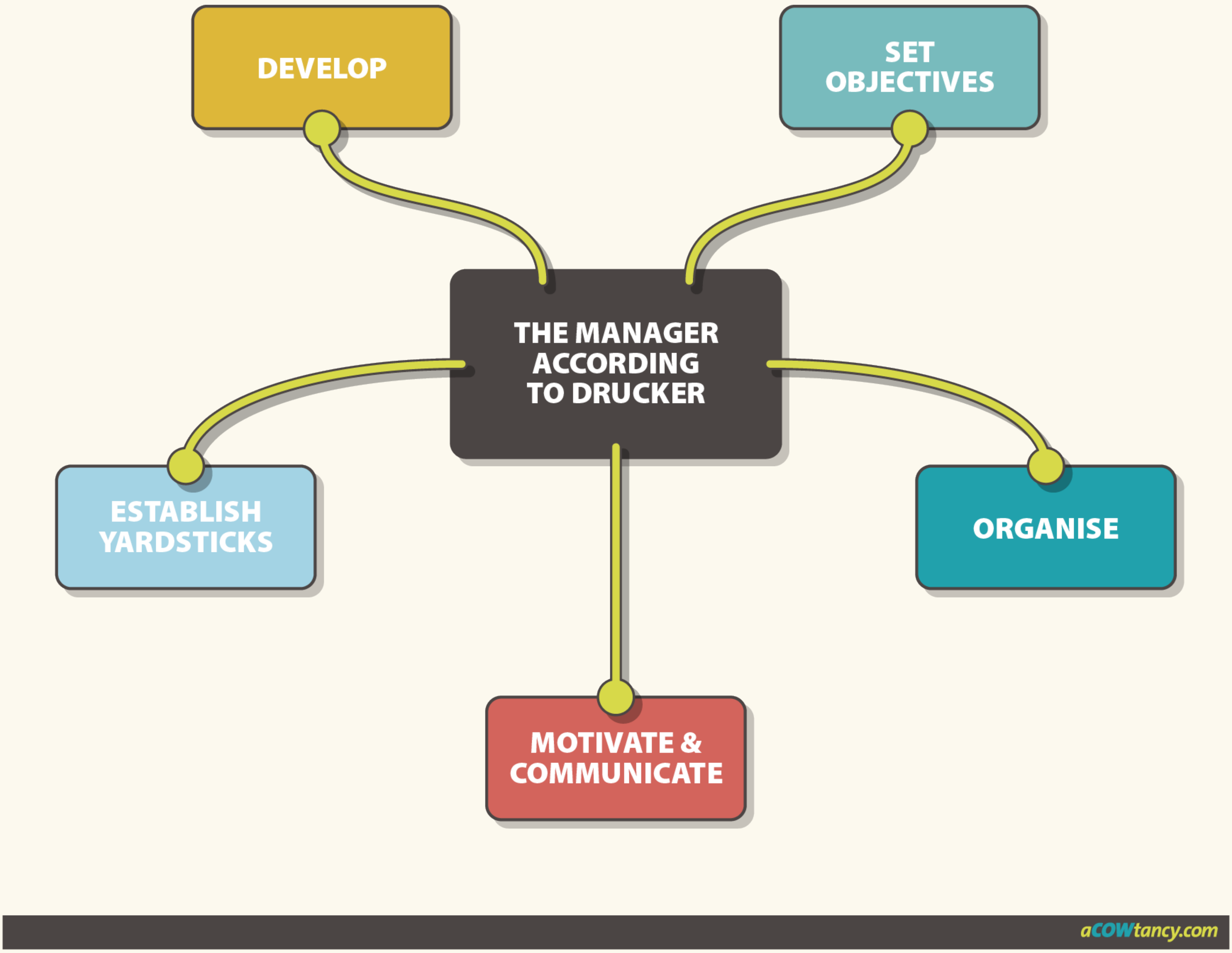
However, the approach possibly overestimates the commitment, motivation and desire to participate in decision making of many employees.

The functions of a manager – Drucker - Mintzberg

Peter Drucker is one of the most influential management philosopher of the modern era.

As a consultant, author and speaker for over sixty years, Drucker influenced the thinking of many executives in businesses and not-for-profits.

According to Drucker, the manager has 5 basic operations in his work:



Henry Mintzberg, on the other hand, identified ten skills which managers need if they are to develop greater effectiveness, and grouped them together under three categories, interpersonal, informational and decisional.

interpersonal		example
figurehead	symbolic role - manager	e.g. receiving

figurehead	symbolic role, manager obliged to carry out social, inspirational, legal and ceremonial duties.	e.g. receiving visitorsand making presentations.
leader	manager’s relationship with subordinates, especially in allocating tasks, hiring, training and motivating staff.	e.g. seeking to build teamwork and foster employee commitment.
liaison	the development of a network of contacts outside the chain of command through which information and favours can be traded for mutual benefits.	e.g. lunches with suppliers or customers.

informational		**example**
monitor	the manager collects and sorts out information which is used to build up a general understanding of the organisation and its environment as a basis for decision making.	e.g. readingreports and interrogating subordinates.
disseminator	to be a disseminator means to spread the information widely.	e.g. passingprivileged information to subordinates.
spokesperson	managers transmit information to various external groups by acting in a pr capacity, lobbying for the organisation, informing the public about the organisation’s performance, plans and policies.	e.g. a sales presentation toprospective customers.

decisional		example
entrepreneur	managers should be looking continually for problems and opportunities when situations requiring improvement are discovered.	e.g. launching anew idea orintroducing procedures such as a cost reduction programme.
disturbance handler	a manager has to respond to pressures over which the department has no control.	e.g. strikes.
resource allocator	choosing from among competing demands for money, equipment, personnel and management time.	e.g. approving expenditure on a project.
negotiator	managers take charge when their organisation must engage in negotiating with others. in these negotiations, the manager participates as figurehead, spokesperson and resource allocator.	e.g. drawing up contractswith suppliers.

Managerial Authority and Responsibility

AREAS OF MANAGERIAL AUTHORITY AND RESPONSIBILITY

Authority is the right to make decisions in the course of discharging a **responsibility** and to require others to accept these decisions and, if necessary, to enforce them (sense of power).

Authority stems from two main sources.

In the first place it owes much to the position which the manager occupies in the hierarchy.

It is of course true that real authority does not come automatically with the entitlement of using a job title, but it is undeniable that a person can be materially assisted by the authority and influence associated with his position.

Having said this, however, it must be recognised that the personal qualities of the individual – his general competence and the confidence which he inspires – are even more important.

Responsibility expresses the obligation a person has to fulfill a task, which he or she has been given.

A person is said to be responsible for a piece of work when he or she is required to ensure that the work is done.

Responsibility is the obligation to use delegated powers.

A very important point that everyone manager has to consider is that managers and supervisors themselves are ultimately responsible for the actions of their subordinates; The term 'accountable' is often used.

It is accountability for the performance of specified duties or the satisfactory achievement of defined company objectives. Because responsibility is an obligation owed, it cannot be delegated.

No superior can escape responsibility for the activities of subordinates, for it is the supervisor who delegates authority and assigns the duties.

John French and Bertram Raven identified 5 sources or bases of power

1. **Reward Power**

   – is based on one person having the ability to reward another person for carrying out orders or meeting other requirements

2. **Coercive Power**

   – is based on one person's ability to punish another for not meeting requirements, is the negative side of reward power

3. **Expert Power**

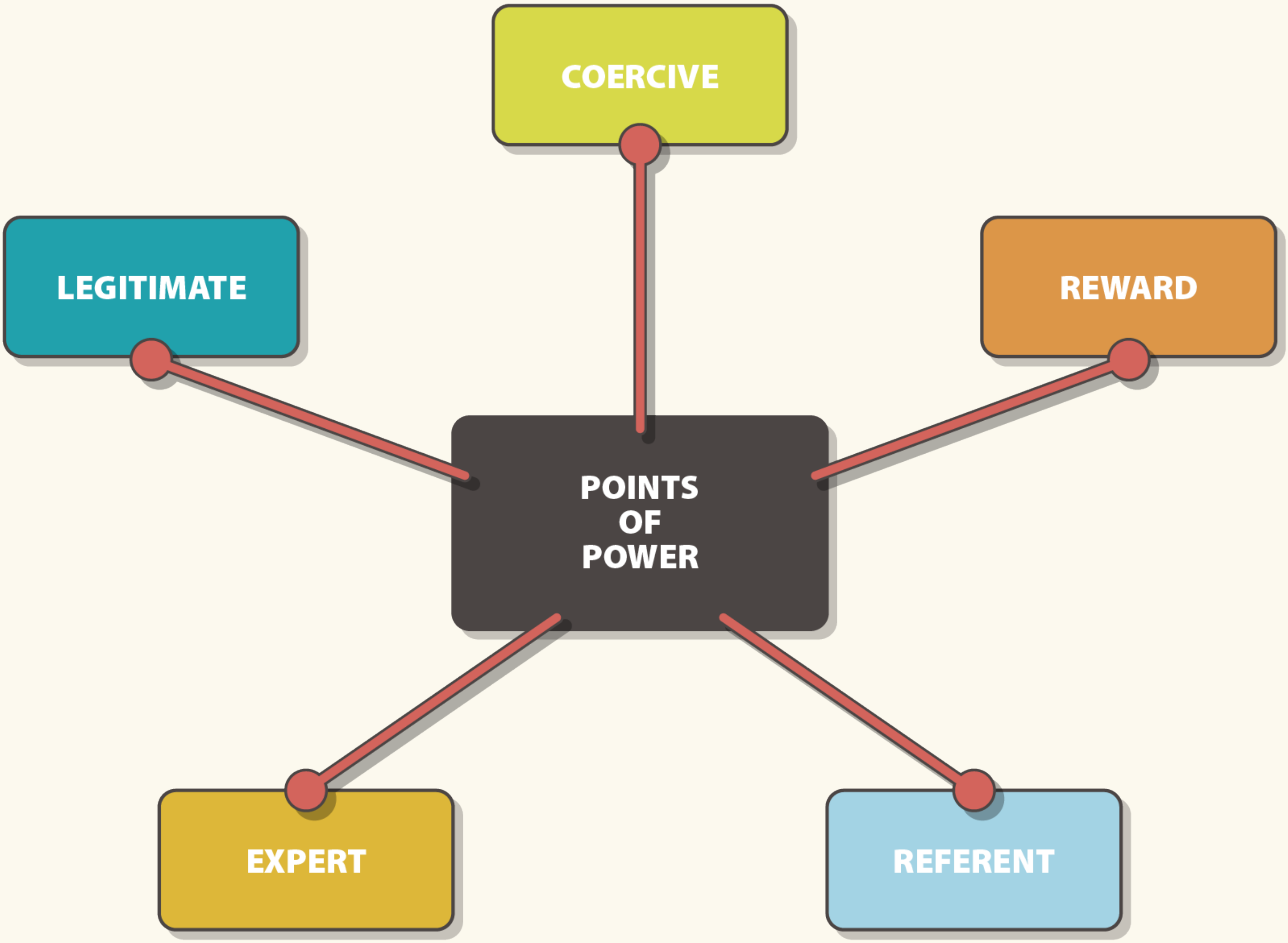
   – is based on the perception or belief that a person has some relevant expertise or special knowledge that others do not

4. **Referent Power**

   – is based on one person's desire to identify with or imitate another

5. **Legitimate Power**

   – the power derived from being in a position of authority within the organisation structure



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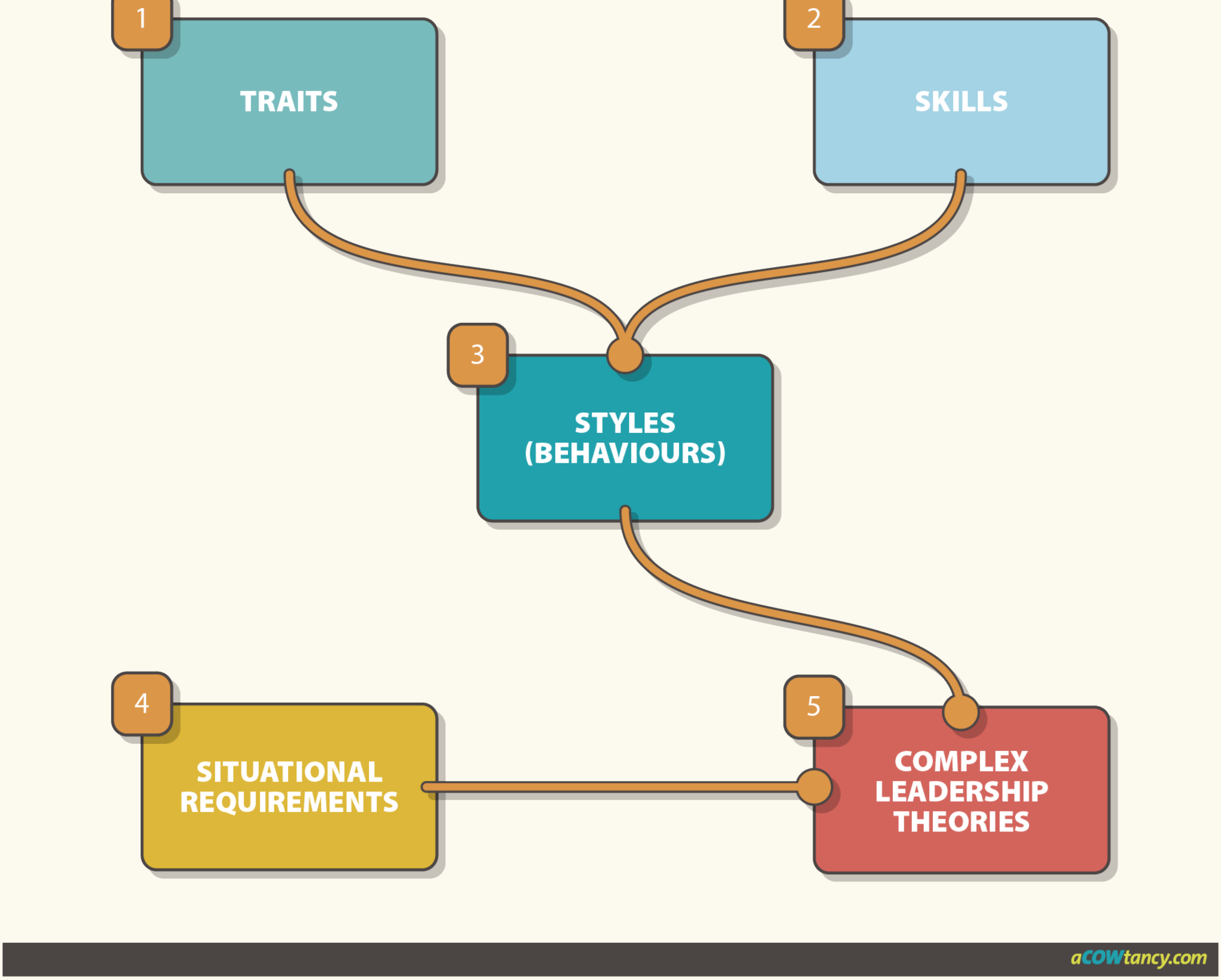
Approaches to Leadership

Situational, Functional & Contingency

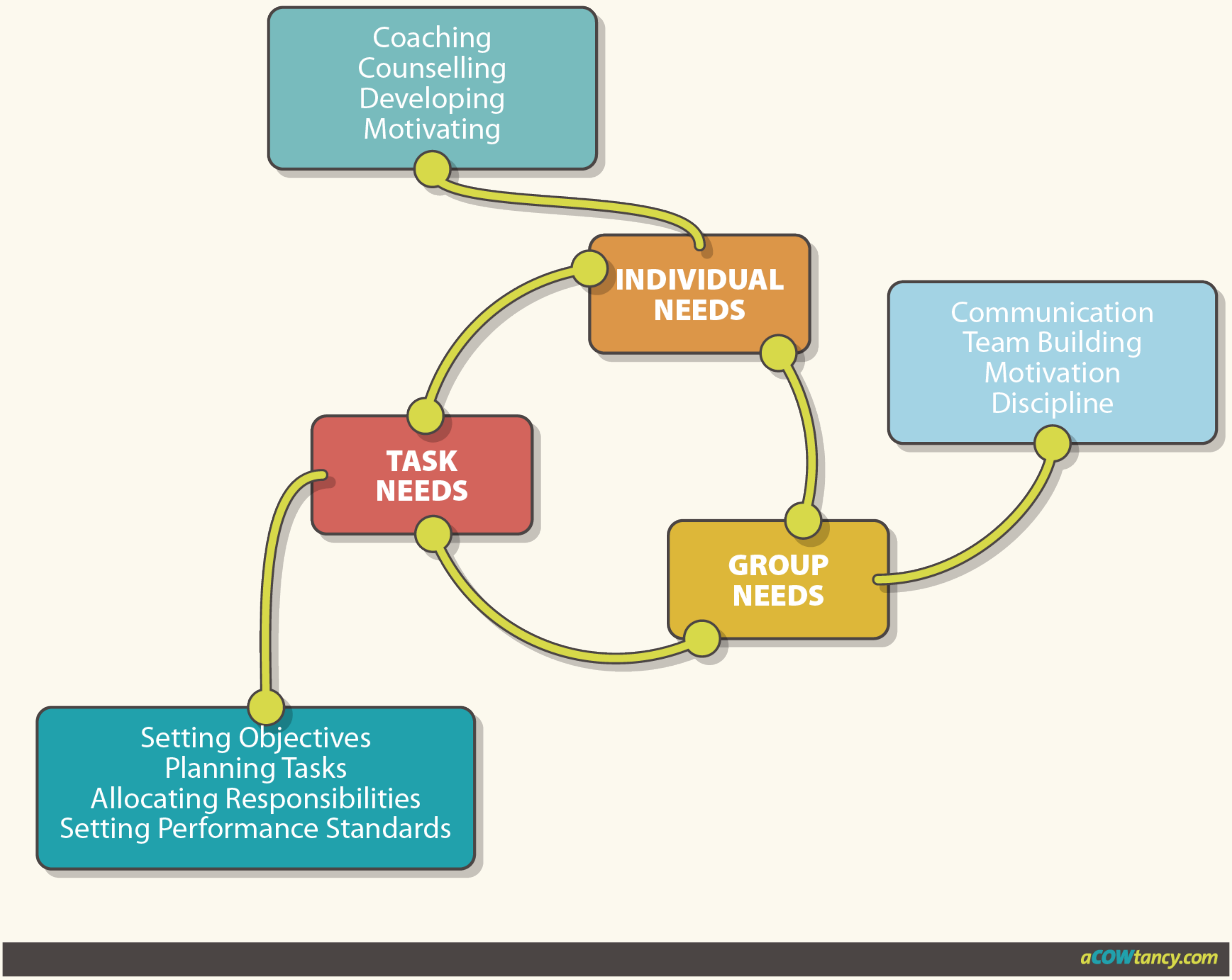


THEORIES FOR APPROACHES TO LEADERSHIP

The action centred approach (Adair)

Adair suggests that any leader has to strive to achieve three major goals while at the same time maintaining a position as an effective leader.

Adair's action – centred leadership model looks at leadership in relation to the needs of the task, individual and group.



The contingency approach - (Fiedler)

Contingency theory sees effective leadership as being dependent on a number of variable or contingent factors.

There is no one right way to lead that will fit all situations; Rather, it is necessary to lead in a manner that is appropriate to a particular situation.

Fiedler studied the relationship between style of leadership and effectiveness of the work group.

Two styles of leader were identified.

Psychologically distant managers (PDMs).

Maintain distance from their subordinates by formalising roles and relationships within the team.

Are withdrawn and reserved in their interpersonal relationships.

Prefer formal communication and consultation methods rather than seek informal opinion.

Judge subordinates on the basis of performance and are primarily task orientated.

Fiedler found that leaders of the most effective work groups actually tend to be PDMs.

Psychologically close managers (PCMs)

1. Do not seek to formalise roles and relationships.

2. Prefer informal contacts to regular formal staff meetings.

3. They are more concerned to maintain good human relationships at work to ensure that tasks are carried out efficiently.

4. Fiedler concluded that a structured (or psychologically distant) style works best when the situation is either very favourable or very unfavourable to the leader.

5. On the other hand, a supportive (or psychologically close) style works best when the situation is moderately favourable to the leader.

6. He further suggested that group performance would be contingent upon the appropriate matching of leadership styles and the degree of favourableness of the group situation for the leader

Transformational leadership (Bennis)

Some of the values used to distinguish between managers and leaders have also been identified as:

Transactional leaders – see the relationship with their followers in terms of a trade: they give followers the rewards they want in exchange for service, loyalty and compliance. (doing things right)

Transformational leaders – see their role as inspiring and motivating others to work at levels beyond more compliance.

Only transformational leadership is said to be able to change team/organisational cultures and create a new direction.

(doing the right thing)

Managing change (Kotter)

People resist what they do not understand.

People resist what they do not like.

People resist because, “We tried that before and it didn’t work.”

People resist just for the sake of resisting.

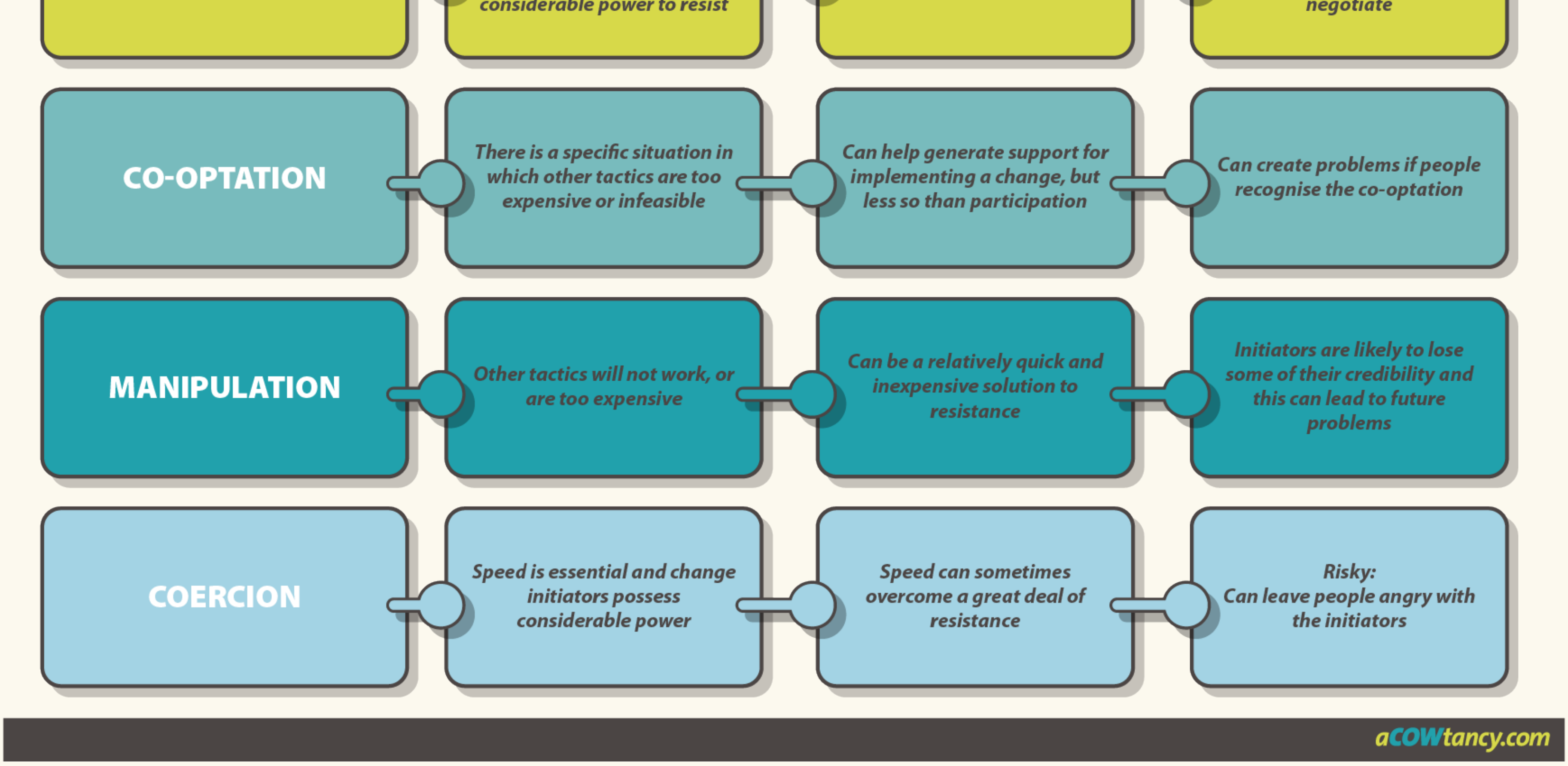
People resist for many reasons.

It is important to understand the dynamics of resistance and to proactively plan and deal with such resistance.

Kotter set out the following change approaches to deal with resistance.

TACTICS FOR DEALING WITH RESISTANCE TO CHANGE (AFTER KOTTER ET AL, 1986)

Tactic	Most appropriately used when	Advantages	Disadvantages
EDUCATION AND/OR COMMUNICATION	*Resistance is based on a lack of information or inaccurate information and analysis*	*Once persuaded, people will often help with the implementation of the change*	*Can be very time-consuming if large numbers of people are involved*
PARTICIPATION	*Initiators do not have all the information needed to design the change and where others have considerable power to resist*	*People who participate are usually more committed to implementing change. Any relevant information that participants have will be integrated into the change plan*	*Can be very time-consuming. Participants can design an inappropriate change*
FACILITATION AND SUPPORT	*People resist because of adjustment problems that are involved*	*No other tactic works as well where there are adjustment problems*	*Can be time-consuming, expensive and still fail*
NEGOTIATION	*Someone or some group will clearly lose out in a change and where they have*	*Sometimes a relatively easy way to avoid major resistance*	*Can be too expensive in many cases. Can trigger other groups to*



Heifetz argues that the role of the leader is to help people face reality and to mobilise them to make change.

Heifetz suggests that the old approach to leadership was that leaders had the answers, the vision and then needed to persuade people to sign up for the change.

Heifetz believes that leaders provide direction but do not have to offer definite answers and should mobilise people to tackle the tough challenges for themselves.

Leaders have two choices when resolving a situation:

1. **Technical change**

   – the application of current knowledge, skills and or tools to resolve a situation.

2. **Adaptive change**

   – is required when the problem cannot be solved with existing skills and knowledge and requires people to make a shift in their values, expectations, attitudes or habits of behaviour.

   This is often required to ensure organisational survival.

Leadership Styles and Contexts

USING THE MODELS OF ASHRIDGE, BLAKE AND MOUTON

Blake and Mouton

Robert Blake and Jane Mouton carried out research into managerial behaviour and observed two basic dimensions of leadership: concern for production (or task performance) and concern for people.

Based on the results of staff questionnaires, managers can then be plotted on Blake and Mouton's grid.

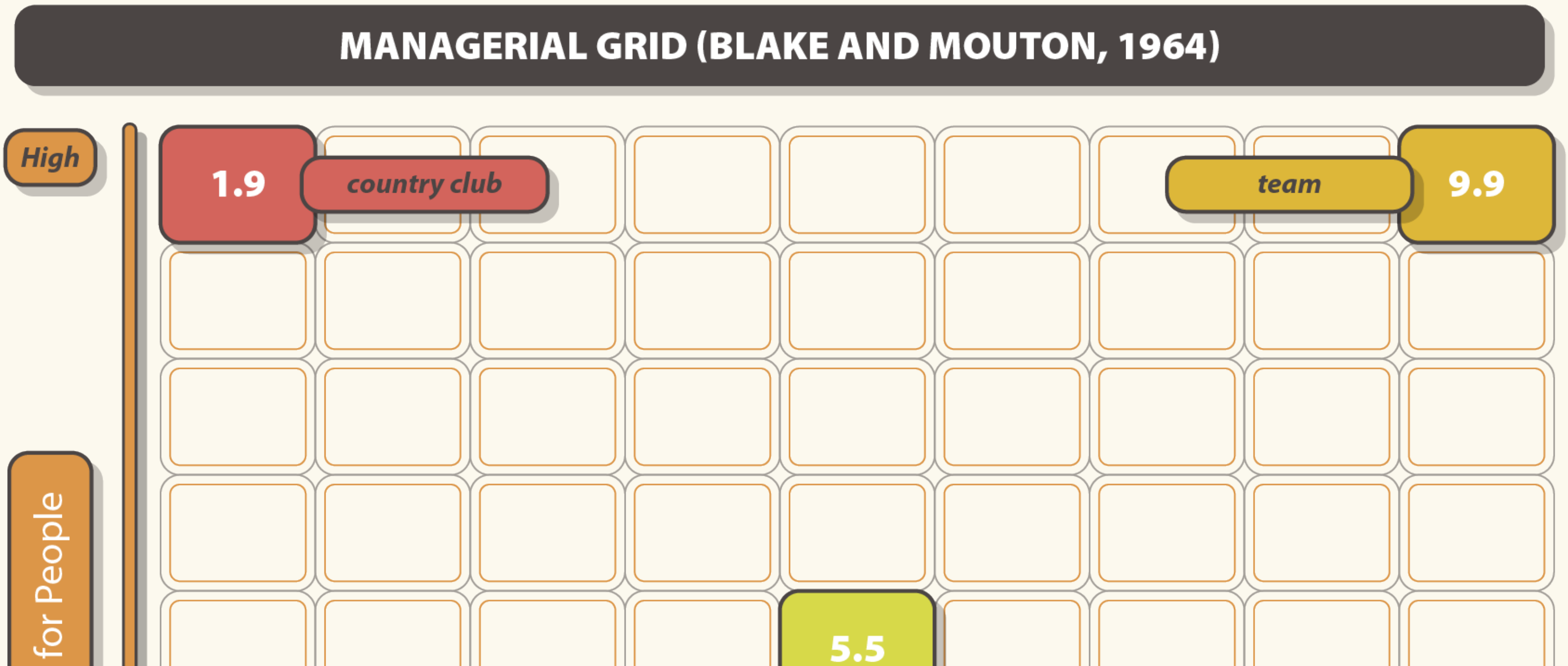
Management impoverished: this manager only makes minimum effort in either area and will make the smallest possible effort required to get the job done.

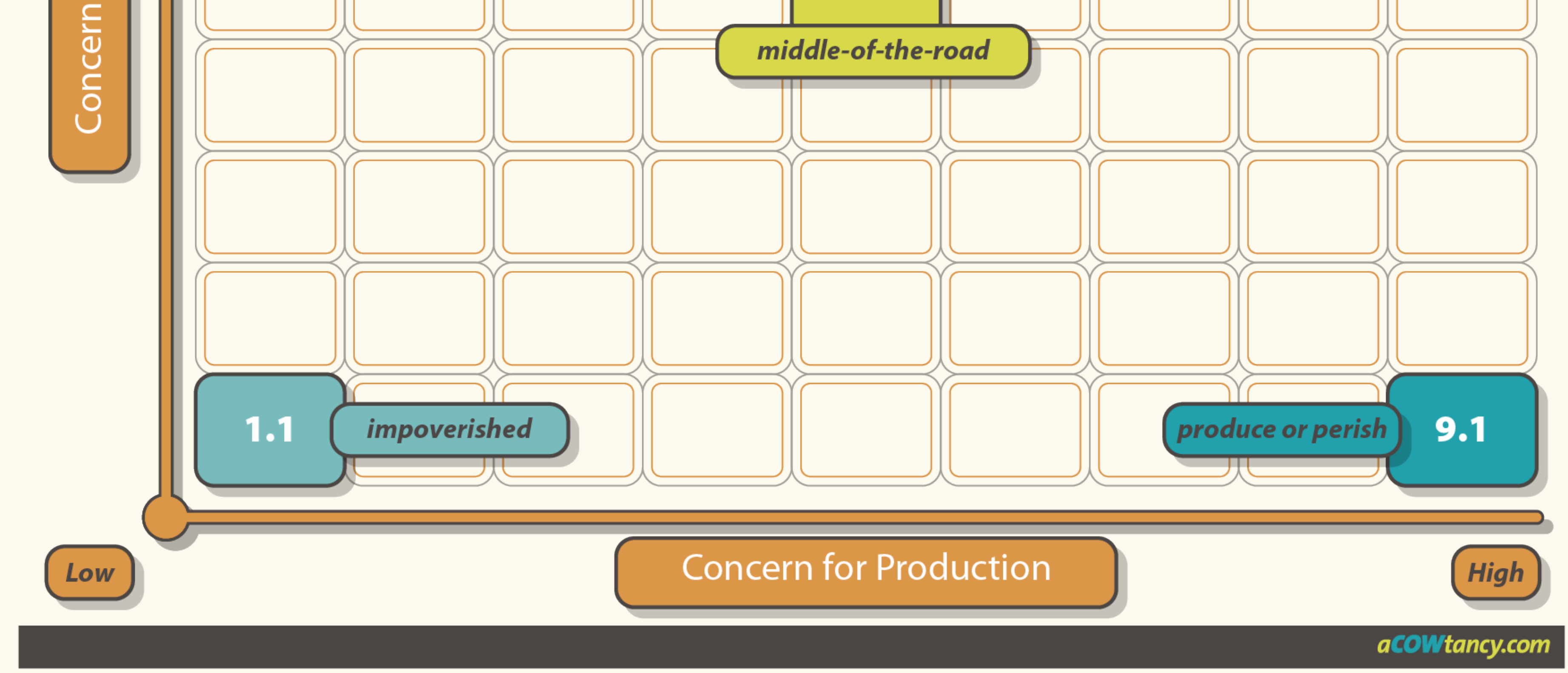
'Country Club' management: this manager is thoughtful and attentive to the needs of the people, which leads to a comfortable friendly organisation atmosphere but very little work is actually achieved.

Task management: this manager is only concerned with production and arranges work in such a way that people interference is minimised.

'Middle of the road management': this manager is able to balance the task in hand and motivate the people to achieve these tasks.

Team management: this manager integrates the two areas to foster working together and high production to produce true team leadership.





benefits	drawbacks
1. the grid shows areas where management faults can be identified and can then provide the basis for training and for management development. 2. as an appraisal and management development tool to inform managers that attention to both task and people is possible and desirable. 3. managers can determine how they are viewed by their subordinates.	1. the grid assumes that leadership style can be categorised into the two dimensions and that results can be plotted on the grid. 2. the position of team management is accepted as the best form of leadership. this may not be practical or indeed advisable. in many industries, concern for the task may be more important than concern for people, and visa versa and will always depend on the individual situation.

Ashridge

Research at Ashridge Management College focuses on four different management styles.

1. **Tells (autocratic)**

   The manager makes all the decisions and issues instructions which must be obeyed without question.

- **Strengths**

  - Quick decisions can be made when required.
  - The most efficient type of leadership for highly programmed work.
- **Weaknesses**

  - Communications are one way, neglecting feedback and potential for upward communication or team member input.
  - Does not encourage initiative or commitment from subordinates, merely compliance.

2. **Sells (persuasive)**

   The manager still makes all the decisions, but believes that team members must be motivated to accept them in order to carry them out properly.

- **Strengths**

  - Team members understand the reason for decisions.
  - Team members may be more committed.
  - Team members may be able to function slightly better in the absence of instruction.
- **Weaknesses**

  - Communications are still largely one way.
  - Team members are not necessarily motivated to accept the decision.
  - It still doesn't encourage initiative or commitment.

3. **Consults (participative)**

   The manager confers with the team and takes their views into account, although still retains the final say.

- **Strengths**

  - Involves team members in decisions, encouraging motivation through greater interest and involvement.
  - Consensus may be reached, enhancing the acceptability of the decision to team members.
  - The quality of the decision may benefit from the input of those who do the work.
  - Encourages upward communication.
- **Weaknesses**

  - May take longer to reach decisions (especially if consensus is sought).
  - Team member input may not enhance the quality of the decision.
  - Consultation can be a façade for a basic 'sells' style.

4. **Joins (democratic)**

The leader and the team members make the decision together on the basis of consensus.

- **Strengths**

  - Can provide high motivation and commitment from team members.
  - Empowers a team member to take the initiative (e g. in responding flexibly to customer demands and problems).
  - Shares other advantages of the 'consults' style (especially where team members can add value).
- **Weaknesses**

  - May undermine the authority of the manager.
  - May further lengthen the decision making process.
  - May reduce the quality of the decision because of the politics of decision because of the politics of decision making.

Recruitment and selection of employees

Effective Recruitment and Selection

THE IMPORTANCE OF EFFECTIVE RECRUITMENT AND SELECTION TO THE ORGANISATION

Recruitment

is the process of identifying that the organisation needs to employ someone up to the point at which application forms for the post have arrived at the organisation.

> Thus, recruitment is the process of generating a supply of possible candidates for positions within an enterprise.
>
> It is very important that a recruitment activity is done in a systematic and consistent way throughout the organisation since such activity is an interface between the organisation and the outer world.
>
> If applicants feel that they were treated unfairly, they might leave a bad impact on the organisation's reputation through word of mouth.

Selection

then consists of the processes involved in choosing from the supply of applicants, a suitable candidate to fill a post.

> A good selection process should involve first of all a review of all the application forms, interviewing and finally obtaining references.

Recruiting people who are not suitable for the organisation means they are likely to be discontented, unlikely to give their best, and end up leaving voluntarily or involuntarily when their unsuitability becomes evident.

consequences of effective recruitment and selection	**consequences of poor recruitment and selection**
the person appointed will: 1. have the technical competence and ability to perform certain tasks 2. have the potential for training, development and future promotion 3. be flexible and adaptable to possible new methods, procedures or working conditions 4. be sociable, work harmoniously and fit within the cultural and social structure of the organisation 5. comply fully with all the legal requirements relating to employment and equal opportunities.	1. high staff turnover 2. the cost of advertising 3. the management time involved in selection and training 4. the expense of dismissal 5. the effects of high turnover on the morale, motivation and job satisfaction of staff 6. reduced business opportunities 7. reduced quality of product or service.

Recruitment and Selection Process & Methods

RECRUITMENT AND SELECTION

Agree on the vacancy to be filled

A vacancy presents an opportunity to either reassess the requirements of the job or to consider restructuring. A number of questions should always be asked prior to recruiting to the vacancy:
Why replace at all? Alternatives to recruitment include retraining, promotion and job rotation
What is the purpose of the post?
Has the function changed?
Can workloads be adjusted?
Can the job be carried out on a part time rather than a full time basis?
Alternatives to full-time employment include home working (or teleworking), job sharing, flexitime or fixed term contracts.

Job Analysis

The process of **job analysis** starts with realising that there is a need or requirement of a job. A **job specification** is a detailed study and description of the tasks that make up the job and the kind of person required to do the job. A **job description** will set out how a particular employee will fit into the organisation. It will therefore need to set out:

the title of the job
to whom the employee is responsible
for whom the employee is responsible
a simple description of the role and
duties of the employee within the
organisation.

Person Specification

A person specification defines the attributes of the ideal candidate – it is a blueprint of the qualities required of the jobholder. There are two main theories relating to the content of a person specification – those put forward by **Alec Rodgers and John Munro Fraser**.

Recruit or promote?

There are many alternatives to external recruitment:
promotion of existing staff (upwards or laterally)
secondment (temporary transfers to another department, office, plant or country) of existing staff, which may or may not become permanent
closing the job down, by sharing out duties and responsibilities among existing staff
rotating jobs among staff, so that the vacant job is covered by different staff, on a systematic basis over several months.

The decisions on whether to recruit someone from outside the organisation or to promote or transfer someone from within the existing workforce will depend mainly on the availability of the skills and attributes required to fill the vacancy. Where there are skill shortages in the country, it may be necessary to develop them within the organisation. Other reasons include:

Attract a field of candidates

It is important to know where suitable applicants are likely to be found, how to make contact with them and to secure their

It is important to know where suitable applicants are likely to be found, how to make contact with them and to secure their application. Potential sources:

- employment service job centers and agencies
- private employment agencies
- career advisory offices
- universities, colleges and schools
- professional and executive appointments registers
- executive search or headhunting
- advertising.

Recruitment consultants

Any organisation which is considering the use of external recruitment consultants would make its decision upon the following:

1. the availability, level and appropriateness of expertise available within the organisation and its likely effectiveness
2. the cost of using consultants against the cost involved in using the organisation's own staff, recognising the level of the vacancy or vacancies against the consultant's fee
3. the particular expertise of the consultants and the appropriate experience with any particular specialised aspect of the recruitment process
4. the level of expertise required of potential employees and therefore the appropriate knowledge required of the consultants.

Prepare recruitment advertisements

The content of the advertisement should be:

- concise, but comprehensive enough to be an accurate description of the job, its rewards and requirements
- attractive to the maximum number of the right people
- positive and honest about the organisation. Disappointed expectations will be a prime source of dissatisfaction when an applicant actually comes into contact with the organisation

Choosing advertising media

The selection of the right medium depends on several factors:

- Type of organisation.
- Type of job.
- Geographic coverage of the medium.
- Readership and circulation.
- Cost of medium
- Frequency and duration.

This could be any of the following:

- National Press
- Local Press
- Internet
- Radio & TV
- Specialist Journals

Sort candidates

Methods of selection generally start with the short listing of applicants. The potential candidates then face a variety of other methods used in the selection process. These include:

Selection Methods:

- Application Forms
- Assessment Centers
- References
- Tests
- Interviews

Selection interviews

Interviews are by far the most widely used selection technique. The main interview options are:
1. Face to face
2. Group Interviews
3. Succession Interviewing
4. Problem Solving
5. Panel Interview
6. Stress

advantages of the interview **technique**	disadvantages of the interview **technique**
I places candidate at ease I highly interactive, allowing flexible question and answers I opportunities to use nonverbal Icommunication Iopportunities to assess appearance, interpersonal and communication skills Iopportunities to evaluate rapport between the candidate and the potential colleagues/bosses.	Itoo brief to 'get to know' candidates Iinterview is an artificial situation Ihalo effect from initial impression Iqualitative factors such as motivation, honesty or integrity are difficult to assess prejudice - stereotyping groups of people Ilack of interviewer preparation, skill, training and practice Isubjectivity and bias.

Selection testing

There are two basic types of test:
1. Proficiency and attainment tests are used to measure an individual's demonstrated competence in particular job related tasks.
2. Psychometric testing measures such psychological factors as aptitude, intelligence and personality.

The elements of the selection process are:

- Intelligence test – measuring general intellectual ability
- Proficiency test – measuring the ability to do the work involved in the job
- Psychometric test – assess the thinking processes of the person
- Aptitude test – testing specific abilities
- Medical examination – tests regarding health issues
- Psychological and personality test – basic attitude profiles can be accessed through questionnaires

Assessment centre

An assessment centre can consist of many processes:

- Group discussions
- Presentations
- Questionnaires
- Simulations – an imitation
- Games
- Speeches
- Peer ratings
- Self-appraisal
- Role-play
- Written tests

References

The purpose of references is to confirm facts about the employee and increase the degree of confidence felt about information given during interviews and from application forms and CVs. References should contain two types of information:

1. Straightforward factual information. This confirms the nature of the applicant's previous job(s), period of employment, pay, and circumstances of leaving.
2. Opinions about the applicant's personality and other attributes.

RECRUITMENT AND SELECTION PROCESSES & STAGES

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There are two main theories relating to the content of a person specification – those put forward by:

1. **Alec Rodgers**
2. **John Munro Fraser**

alec roger – 7 point plan	**fraser – 5 point plan**
s special aptitudes **c** circumstances **i** interests **p** physical makeup **d** disposition **a** attainments **g** general intelligence	**f** flexibility and adjustment **i** impact on other people **r** required qualifications **m** motivation **i** innate abilities

Recruit or promote?

There are many alternatives to external recruitment:

- promotion of existing staff (upwards or laterally)
- secondment (temporary transfers to another department, office, plant or country) of existing staff, which may or may not become permanent
- closing the job down, by sharing out duties and responsibilities among existing staff
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The decisions on whether to recruit someone from outside the organisation or to promote or transfer someone from within the existing workforce will depend mainly on the availability of the skills and attributes required to fill the vacancy.

Where there are skill shortages in the country, it may be necessary to develop them within the organisation.

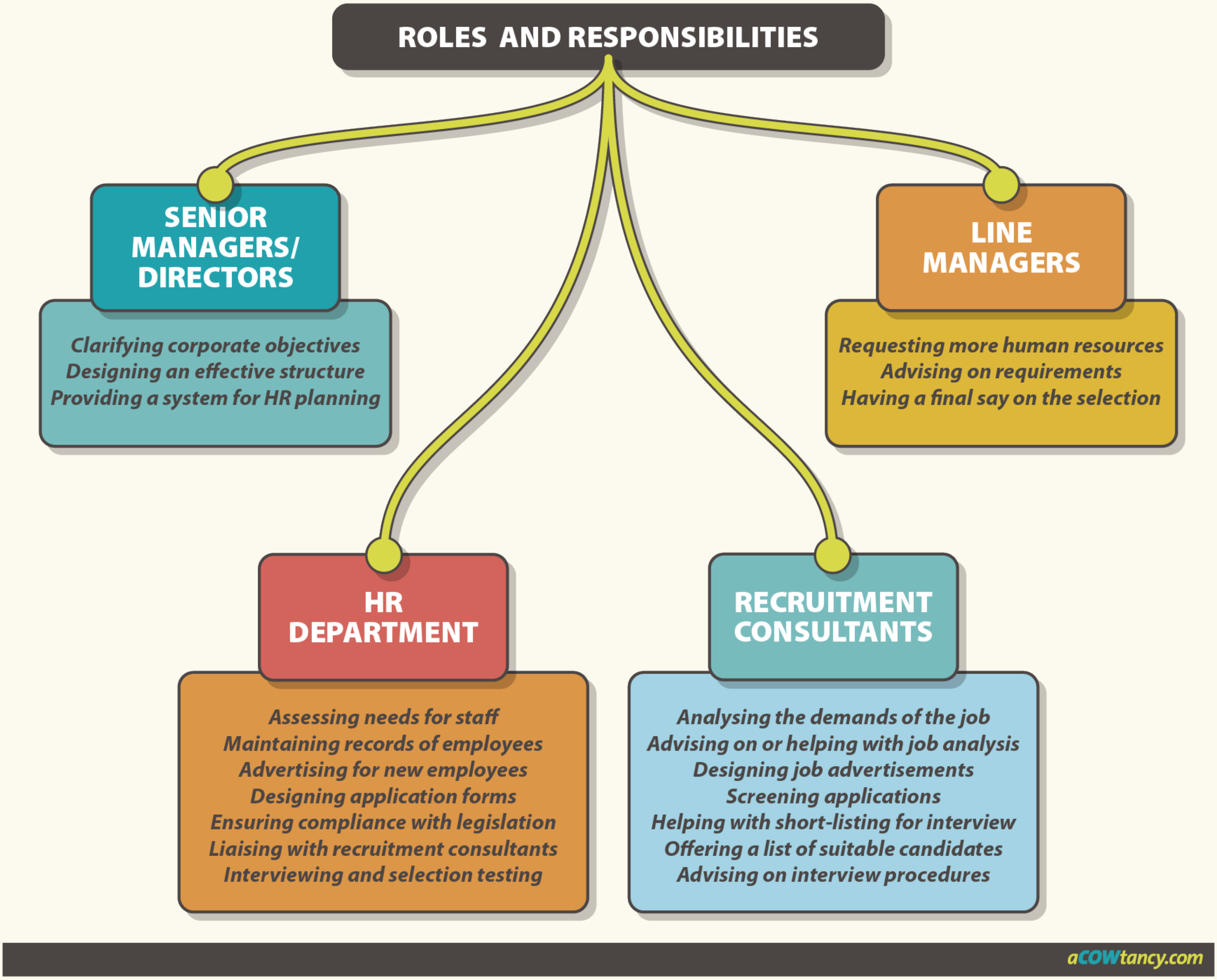
Other reasons include:

internal	**external**
l motivating present employees l part of career development plan l 'know' the staff already l candidate understands work l save time and money l no induction necessary	l obtain specialist skills l inject 'new blood' into company but l may create dissatisfaction in existing employees l may cost more (higher wage)

DIFFERENT RECRUITMENT AND SELECTION METHODS

Recruitment and Selection Processes & Recruitment Needs

Roles in Recruitment and Selection Processes & Meeting Recruitment Needs



Diversity and Equal Opportunities Policy

DIVERSITY AND EQUAL OPPORTUNITIES POLICY

Organisations and businesses are made up of many individuals working together to achieve organisational success.

These individuals bring different attitudes, perceptions and learning experiences to the workplace, as well as ethnic, gender and

personality differences.

These can be a source for developing creativity within an organisation.

However they can also be the cause of problems.

Over the past 30 years or so, employment has changed beyond all recognition.

This change has led to a fundamental re-thinking of the way employees are managed.

Managers have had to recognise the need (or in many countries the legal requirement) to develop and enforce company policies aimed at reducing and eliminating discrimination.

In addition, the increasing globalisation of business has meant that managers must be aware of cultural and race issues (**diversity**).

Equal opportunities is a universally used and understood term which describes the idea that everyone in an organisation should have an equal chance to apply and be selected for posts, to be trained or promoted and to have employment terminated fairly.

Employers can discriminate only on the basis of ability, experience or potential.

All employment decisions are based solely on an individual's ability to do a particular job.

No consideration should be taken of a person's sex, age, racial origin, disability or marital status.

Sex discrimination policy

In addition, many organisations have adopted a **sex discrimination policy** that requires gender equality in all areas of employment including the selection process, opportunities for training, promotion, benefit provision, facilities and dismissal.

Such a policy deems it wrong to make any form of discrimination within employment matters because of marital status or sex and covers three main categories of sex discrimination: direct discrimination, indirect discrimination and victimisation.

> Direct discrimination involves treating a person less favourably than others on sexual, racial or marital grounds.
>
> This might include for example, a dismissal from employment upon marriage.
>
> One act of discrimination is sufficient and must be directed against an individual.

> Indirect discrimination describes a term or condition applicable to both sexes, but where one sex has a considerably lesser ability to comply with it than the other.
>
> An example would be a condition that a candidate must be of a particular height.

> Finally, victimisation is discrimination against an individual who has brought proceedings or given evidence in another case involving discrimination or disciplinary matters.

The promotion of equal opportunities makes good business sense.

Equal opportunities are promoted as a key component of good management as well as being a legal requirement.

It is also socially desirable and morally right. Managing diversity on the other hand expands the horizons beyond equality issues and builds on recognised approaches to equal opportunities.

It adds on to the development of equal opportunities and creates an environment in which enhanced contributions from all employees work to the advantage of the business, employees themselves and society generally. It offers an opportunity for organisations to develop a workforce to meet business goals and to improve approaches to customer care.

Managing diversity is about having the right person for the job regardless of sex, race or religion.

Behaviour in business organisations

Individual and Group Behaviour

MAIN CHARACTERISTICS

Behaviour always involves a complex interaction of the person and the situation.

Events in the surrounding environment (including the presence and behaviour of others) strongly influence the way people behave to any particular time; yet people always bring something of themselves in the situation.

This "something" may include:

- motivation level
- perception
- attitudes
- personality

When you are dealing with other people there are different types of behaviour that can be adopted.

Assertive behaviour

- is direct, honest and professional communication.

It is insisting on your rights without violating the rights of others.

E.g. "I would like you to rework this report there are several mistakes in it."

Aggressive behaviour

- violates another person's rights and can lead to conflict.

E.g. " I do not know how you have the nerve to submit this report, it has so many mistakes in it."

Passive behaviour

- is giving in to another person in the belief that their rights are more important than one's own.

E.g. "The mistakes in the report are probably my fault for not explaining it properly."

Organisational Success

CONTRIBUTIONS OF INDIVIDUALS AND TEAMS OF ORGANISATIONAL SUCCESS

Being inherently social, people generally do not choose to live or work alone.

Most of their time is spent interacting with others.

People are born into a family group, work in groups and play in teams.

One person cannot do everything, but a team can combine all the main areas of skill and knowledge that are needed for a particular job.

Synergy

describes the phenomenon in which combined activity of separate entities has a greater effect than the sum of activities of each entity working alone often described as a way of making 2 + 2 = 5.

Within organisations there has been an implicit belief that people working as members of a group or team perform more effectively than if they are organised as individuals.

There are, of course, many work situations where the group is the best means to get work done, such as:

> When working cooperatively, rather than working individually, gives a better end result in terms of speed, efficiency or quality.

> Where the task requires a mixture of different skills or specialism's.

> Where competition between individuals leads to less effectiveness rather than more.

> Where the task requires the coordination of activities.

Approaches to Work

INDIVIDUAL AND TEAM APPROACHES TO WORK

One of the key points that mangers need to grasp is that an effective group is one, which not only achieves its task objectives, but satisfies the needs of its members as well.

For each individual there are many factors that affect behaviour and performance at work.

Motivation

Many of the factors that motivate individuals to perform are social in nature; groups can bring out the best in people and can be essential for the delivery of social needs.

Physical and working conditions.

Safety.

Monetary rewards.

Recognition.

Perception

Developing a group means identifying distinct roles for each of its members.

Any individual can have several roles, varying between different groups and activities.

The role adopted will affect the individual's attitude towards other people.

1. A role is the expected pattern of behaviours associated with members occupying a particular position within the structure of the organisation.

   It also describes how individuals perceive their own situation.

2. An individual's perceptions of other people and interactions with other people will be influenced by the different roles.

   The role they adopt will affect their own behaviour, as well as their attitude towards other people.

Role theory

There is also a "role theory" which suggests that people behave in any situation according to other people's expectations of how they should behave in that situation

Role ambiguity arises when individuals are unsure what role they are to play, or others are unclear of that person's role and so hold back cooperation.

If a manager tries to be "friend" with staff, this may create ambiguity and people will not know where they stand

Role conflict arises, when individuals find a clash between differing roles that they have adopted.

For example, if you have to discipline a member of staff (in your role of supervisor) with whom you have become informally friendly (in your role as a sociable person)

Role incompatibility occurs when individuals experience expectations from outside groups about their role that are

Role incompatibility occurs when individuals experience expectations from outside groups about their role that are different from their own role expectations.

Role signs are visible indications of the role.

Style of dress and uniform are clear examples of role signs.

Role set describes the people who support a lead person in a major role, e.g. the accounts clerk will relate to the accounts manager.

Role models are the individuals you aspire to be like: people you look up to and model your own behavior on.

Team formation, development and management

A Group and a Team

DIFFERENCES AND PURPOSES

A **group** is any collection of people who perceive themselves to be a group.

Groups have the following attributes:

1. A sense of identity - there are acknowledged boundaries of the group, who is in and who is out.
2. Loyalty to the group acceptance that bind the group together.
3. Purpose and leadership express purpose, choose individuals to lead them towards their goals.

In groups:

people accommodate each other

people negotiate

objectives may be modified

the process issues are often covert (hidden)

politics are rife (frequent)

commitment can be high.

An informal group

> is one that develops out of the day-to-day activities, interactions and sentiments that the members have for each other.
>
> Informal groups typically meet their members' security and social needs.
>
> In the work setting, the purpose of informal groups is not related to organisational goals.
>
> Informal groups in organisations cannot always be classified simply as positive or negative because may exhibit both circumstances from time to time, depending on the circumstances or issues facing the organisation at a point in time.

A formal group

> is used in organisations to carry out tasks, communicate and solve problems.
>
> Membership is normally formal, often determined or constrained by the organisation into departments or divisions.

A team

> is a number of employees with complementary competencies such as abilities, skills and knowledge who are committed to common performance goals and working relationships for which they hold themselves mutually accountable.
>
> The heart of any team is a shared commitment by its members for combined performance.
>
> Goals cannot be achieved without the cooperation and communication of team members.
>
> When a team is formed, its members must have the right mix of competencies to achieve the team's goals.
>
> Also, its members need to be able to influence how they will work together to accomplish those goals even if it includes the need of constructive criticism.

Manager's Role

ROLE OF A MANAGER IN BUIDING A TEAM AND DEVELOPING INDIVIDUALS WITHIN A TEAM

Belbin's team role theory

The role team role theory is developed by Meredith **Belbin** in 1981, following nine years of study.

The Belbin's team role theory has become one of the most accessible and widely used tools to support team building.

The team roles were designed to define and predict potential success of management teams, recognising that the strongest teams have a diversity of characters and personality types.

It has been criticised due to its potential oversimplification.

However, when used wisely to gain insight about the working of the team and identify the team strengths and weaknesses it can be extremely useful.

Belbin suggested that a group needs a balance of the above roles to be effective.

leader	coordinator
shaper	task leader, extrovert
plant	thoughtful and thought provoking, ideas person
monitor evaluator	criticises others ideas, brings the team down to earth
resource investigator	extrovert, networker, looks for alternative solutions
the company worker	administrator, organizer

the team worker	concerned with relationships within the groups
the finisher	the progress chaser
the expert	as required by the project

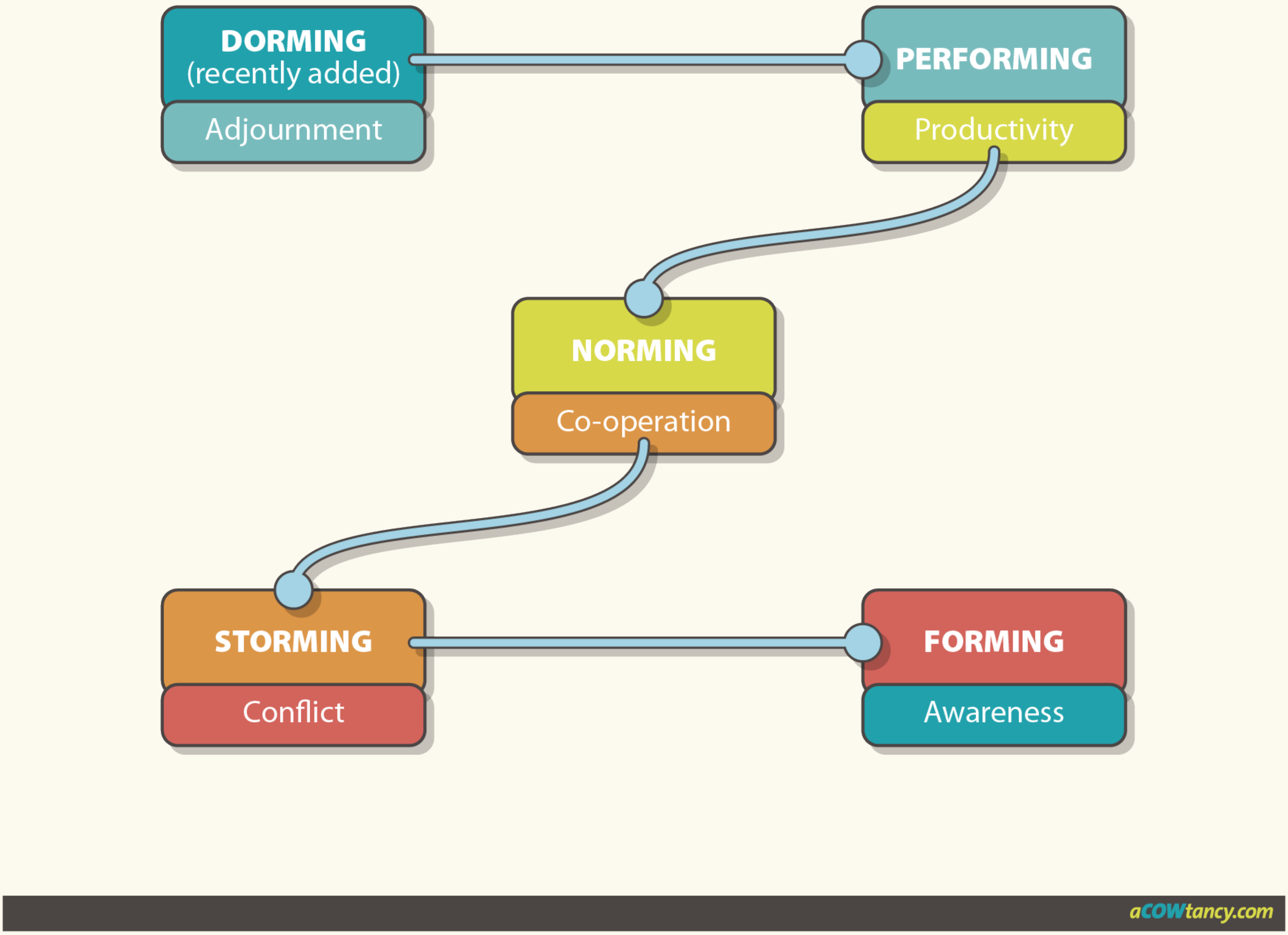
Rackham and Manga have developed a helpful categorization of the types of contribution people can make to team discussion and decision making, including:

- Proposing
- Supporting
- Seeking information
- Giving information
- Blocking / difficulty stating
- Shutting-out behavior
- Bringing-in behavior
- Testing understanding
- Summarizing

Each type of behavior may be appropriate in the right situation at the right time.

A team may be low on some types of contribution and it may be up to the team leader to adopt behaviors as to provide a balance.

Tuckman's theory of team development



Groups initially concern themselves with orientation accomplished primarily through testing.

Such testing serves to identify the boundaries of both interpersonal and task behaviours.

Coincident with testing in the interpersonal realm is the establishment of dependency relationships with leaders, other group members, or pre-existing standards.

It may be said that orientation, testing and dependence constitute the group process of **forming**.

The second point in the sequence is characterised by conflict and polarisation around interpersonal issues, with concomitant (being parallel with) emotional responding in the task sphere.

These behaviours serve as resistance to group influence and task requirements and may be labelled as **storming**.

Resistance is overcome in the third stage in which in-group feeling and cohesiveness develop, new standards evolve, and new roles are adopted.

In the task realm, intimate, personal opinions are expressed.

Thus, this is the stage of **norming**.

Finally, the group attains the fourth and final stage in which interpersonal structure becomes the tool of task activities.

Roles become flexible and functional, and group energy is channeled into the task.

Structural issues have been resolved, and structure can now become supportive of task performance.

This stage can be labelled as **performing**. (Tuckman 1965 - page 78 in the 2001 reprint).

More recently a 5th stage has been added to Tuckman's original four.

Dorming – If a team remains for a long time in the performing phase, there is a danger that it will be operating on automatic pilot.

Groupthink occurs to the extent that the group may be unaware of changing circumstances.

Instead, maintaing in the team becomes one of its prime objectives.

Effective and Ineffective Teams

EFFECTIVE AND INEFFECTIVE TEAMS

Ineffective Teams

- inappropriate leadership
- unqualified membership
- unconstructive climate
- unclear objectives

poor achievement

ineffective work methods

insufficient openness and confrontation

undeveloped individuals

low creative capacity

unconstructive relationships between team members

Effective Teams

Peters and Waterman define the five key aspects of successful taskforce teams as:

1. The numbers should be small; Inevitably each member will then represent the interest of their section/ department.
2. The team should be of limited duration, and exist only to resolve this particular task.
3. Membership should be voluntary.
4. Communication should be informal and unstructured, with little documentation and no status barriers.
5. It should be action oriented - The team should finish with a plan for action

Evaluating team effectiveness

The organisation could measure the following:

effectiveness the degree to which objectives are achieved

efficiency the use of resources in achieving the objectives

team member satisfaction the motivational climate

observe and rate the teams behaviour

interview the team about performance

send out a questionnaire to team members.

Motivating individuals and groups

Motivation

IMPORTANCE TO THE ORGANISATION, TEAMS AND INDIVIDUALS

Motivation

represents the forces acting on or within a person that cause the person to behave in a specific, goal-directed manner.

> Since motives of employees affect their productivity, one of management's jobs is to channel employee motivation effectively toward achieving organisational goals.
>
> However, motivation is not the same as performance.
>
> Even the most highly motivated employees may not be successful in their jobs, especially if they do not have the competencies needed to perform the jobs or work under unfavourable job conditions.
>
> Although job performance involves more than motivation, the latter is an important factor in achieving high performance.

A distinction should be made here between:

motivation (how hard you are willing to work) and

satisfaction (being content with your job and not looking for another).

In the short run you can have one without the other but in the long run there is usually congruence.

Consider someone working for a very aggressive manager who constantly shouts at them.

They may work very hard to avoid further abuse from their boss but would probably be looking for another job.

In the longer term the poor working conditions would also dampen their motivation.

From the **organisation's perspective** it is highly desirable to have motivated workers, as they

- work harder
- make fewer mistakes
- generate less waste
- provide more feedback
- make more suggestions
- are more likely to be satisfied with their jobs and
- don't waste time

Teams

Motivation is also important to the efficient running of teams.

Apart from the benefits outlined above, motivated employees are also

- more likely to cooperate and put team interests first.

Individuals

From an individual's perspective being motivated should result in:

greater job satisfaction

improved health (less stress)

improved career prospects and

finding the job more interesting.

Theories of Motivation & Types of Intrinsic and Extrinsic Reward

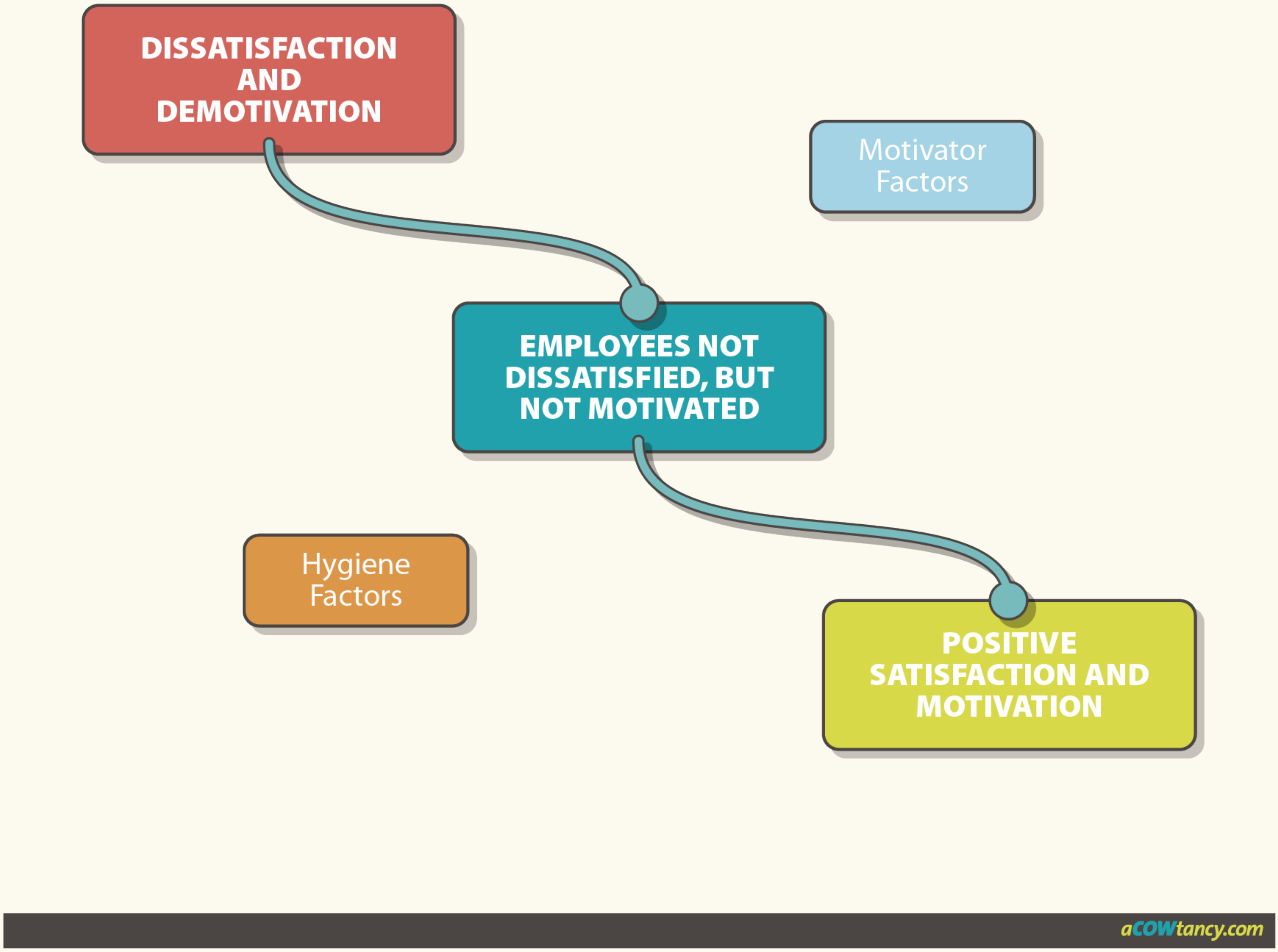
Content & Process Theories

content theories	process theories
• ask the question 'what' are the things that motivate people? they are also referred to as "need theories" and assume that human beings have a set of needs or desired outcomes which can be satisfied through work. • content theories assume that everyone responds to motivating factors in the same way and that there is one best way to motivate everybody.	• ask the question 'how' are people motivated. they attempt to explain how individuals start, sustain and direct behaviour and assume that individuals are able to select their own goals and means of achieving those goals through a process of calculation. • process theories change the emphasis from needs to the goals and processes by which workers are motivated.

Maslow Hierarchy of Needs (Content Theory)

Maslow proposed that people have five types of needs (as cited in the diagram above) and when a need is satisfied it no longer motivates a person.

Hertzberg's two factor theory of motivation (Content Theory)



Hygiene factors must be addressed to avoid dissatisfaction and include:

- Policies and procedures for staff treatment

- Suitable level and quality of supervision

- Pleasant physical and working conditions

- Appropriate level of salary and status for the job

Appropriate level of salary and status for the job

Team working

Hygiene factors are concerned with extrinsic factors these are separate from or external to the job itself and are dependent on the decisions of others.

However, in themselves hygiene factors are not sufficient to result in positive motivation.

Motivators include

Sense of achievement

Recognition of good work

Increasing levels of responsibility

Career advancement

Attraction of the job itself

The main motivation factors are thus not in the environment but in the intrinsic value and satisfaction gained from the job itself.

Most are non financial in nature.

Fredrick Herzberg defines three ways that management can attempt to improve staff satisfaction and motivation

1. **Job enrichment** (sometimes called 'vertical job enlargement') a deliberate, planned process to improve the responsibility, challenge and creativity of a job.

   Typical examples include delegation or problem solving.

   For instance, where an accountant's responsibilities for producing quarterly management reports end at the stage of producing the figures, they could be extended so that they included the preparation of them and the accountant could submit them to senior management.

This alteration in responsibilities could not only enrich the job but also increase the workload, leading to delegation of certain responsibilities to clerks within the department, the cascading effect enriching other jobs as well.

2. **Job enlargement** widening the range of jobs, and so developing a job away from narrow specialisation.

   There is no element of enrichment.

   Argyris calls this 'horizontal job enlargement'.

   Herzberg contends that there is little motivation value in this approach.

3. **Job rotation** the planned rotating of staff between jobs to alleviate monotony and provide a fresh job challenge. The documented example quotes a warehouse gang of four workers, where the worst job was tying the necks of the sacks at the base of the hopper after filling; the best job was seen as being the forklift truck driver. **Job rotation** would ensure that equal time was spent by each individual on all jobs.

   Herzberg suggests that this will help to relieve monotony and improve job satisfaction but is unlikely to create positive motivation.

McGregor's Theory X and Theory Y (Content Theory)

> McGregor presented two opposite sets of assumptions made by managers about their staff.
>
> These assumptions, which he called Theory X and Theory Y, are implicit in most approaches to supervision.
>
> These theories are opposite ends of a continuum.

Theory X assumptions: (Negative approach)

People dislike work and responsibility

People must be coerced to get them to make an effort

Subordinates prefer to be directed, wish to avoid responsibility, have relatively little ambition, and want security above all.

Theory Y assumptions: (Positive approach)

physical and mental effort in work is as natural as play or rest

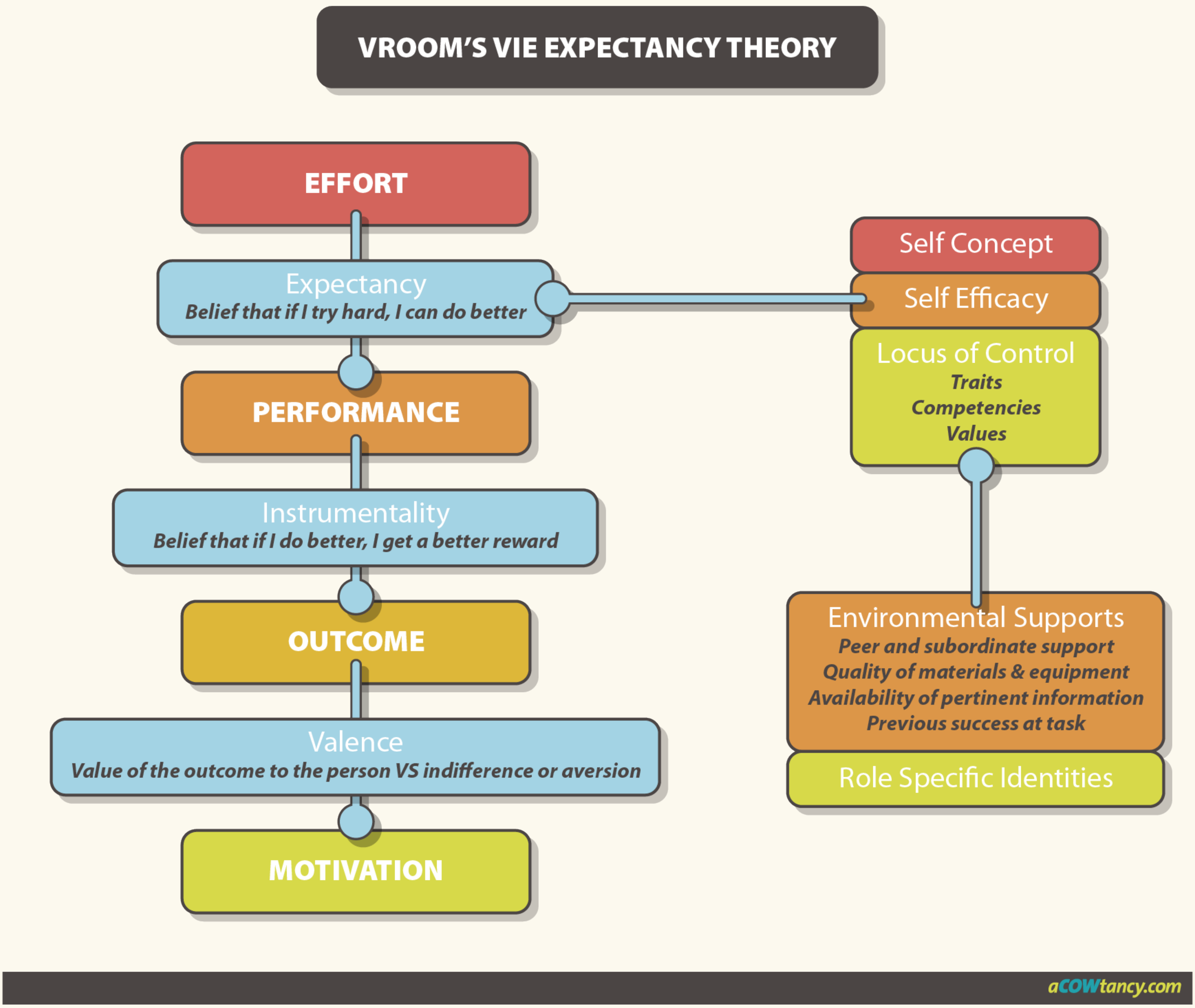
the average human being does not inherently dislike work, because it can be a source of satisfaction

people can exercise self direction and self-control to achieve objectives to which they are committed

people can exercise self direction and self-control to achieve objectives to which they are committed.

people can learn to enjoy and seek responsibility

Vroom's Expectancy Model (Process Theory)



The expectancy model holds that individuals know what they desire from work.

They choose activities only after they decide that the activities will satisfy their needs.

An individual believes that effort expended will lead (expectancy) to some desired level of performance and that this level of performance will lead (instrumentality) to desired rewards.

Vroom’s theory may be stated as:

Force = valence x expectancy

Force = the strength of a person’s motivation

Valence = the strength of an individual’s preference for an outcome

Expectancy = the probability of success

Reward Systems

DESIGNED AND IMPLEMENTED TO MOTIVATE TEAMS AND INDIVIDUALS

Management action is required to keep staff highly motivated in order to deliver high performance.

Achievement of high performance may be delivered through positive rewards.

It is important that in setting the reward system goal congruence is achieved (e.g. higher productivity may be at the expense of quality when using a piece rate system).

These rewards should help to:

1. Attract and retain staff.
2. Demonstrate care for employees.

3. Improve company image being seen as a company who is socially responsible.
4. To encourage desirable behaviour (motivation).
5. Provide a fair and consistent basis for motivating and rewarding employees.
6. To further company objectives through an externally based fair system.
7. To reward progression or promotion through developed pathways.
8. To recognise the various factors apart from performance such as job size, contribution, skills and competences.
9. To control salary costs.

Incentive schemes

An incentive scheme ties pay directly to performance and the reward should encourage improvements in performance.

It can be tied to the performance of an individual or a team of employees.

The scheme should link performance to organisational goals.

There are three main types of incentive schemes:

1. Performance related pay (PRP)

- Piecework reward related to the pace of work or effort. The faster the employee works, the higher the output and the greater the reward.
- Management by objectives (MBO) key results are identified for which rewards will be paid on top of salary.
- Points system this is an extension to MBO reward systems where a range of rewards is available based on a point system derived from the scale of improvement made such as the amount of cost reduction achieved.
- Commission paid on the performance of an individual typically paid to salaried staff in sales functions, where the commission earned is a proportion of total sales.

2. Bonus schemes

> **Bonus schemes** usually a one off as oppose to PRP schemes which are usually a continual management policy

3. Profit sharing

- Usually available to a wide group of employees (often companywide) where payments are made in the light of the overall profitability of the company.
- Share issues may be part of the scheme.

Incentives need to encourage effort or action towards the delivery of organisational objectives.

There can be potential conflict when contrasting long and short term objectives. (e.g. sales staff offering discounts to customers to win extra orders this year to get a bonus, at the expense of next year's sales)

Long term incentive schemes will be those that are designed to continually motivate and deliver organisational objectives.

Short term incentive schemes will be those that motivate in the short term but do not deliver ongoing motivation and are often achieved at the detriment of longer term objectives.

Learning and training at work

Learning and Development in the Workplace

Learning can be defined as...

..."the process of acquiring knowledge through experience, which leads to a change in behaviour".

It includes the acquisition of a new skill, new knowledge, a modified attitude or a combination of all three.

Many employers, mostly of small businesses, perceive investment in work related learning to be a drain on their business.

However, studies have shown that organisations that deliberately foster a culture of learning are those that are on the leading edge of development and change.

Learning in the workplace is important for the following reasons:

1. It can lead to increased competence, understanding, self-esteem and morale.
2. People who enjoy learning are more likely to be flexible in times of constant change and therefore are more adaptable to organisational turbulence.
3. There is growing evidence that a learning culture can increase the productivity and competitiveness of organisations.
4. If workers are not given learning opportunities, there is a risk that they will feel undervalued and become disenchanted.

As is so often said by management writers – if you want to develop an organisation, then develop its people and they will develop the organisation.

Lifelong learning should be the concern of all employees in the organisation and, despite its title, it is arguable that the concept of continuing professional development (CPD) should not be seen as applying only to professionals or managers.

CPD – continuing professional development - can be defined as 'the continuous maintenance, development and enhancement of the professional and personal knowledge, skills and ability, often termed competence, which members of certain professions require throughout their working lives'.

Put simply, it is a lifelong learning approach to planning, managing and getting the most from an individual's own development. Learning and development are planned, rather than accidental.

The Learning Process

THE LEARNING PROCESS: HONEY AND MUMFORD, KOLB

Kolb's experiential learning theory

'Experiential learning' can apply to any kind of learning through experience.

David Kolb suggests that learning is a series of steps based on learning from experience.

He suggested that classroom learning is false and that actual learning comes from real life experiences.

> Experiential learning comes from DOING and this ensures that learners actually solve problems.
>
> To learn effectively from experience (which includes work placements and practical activities within taught courses) usually involves completing a cycle of activities.
>
> All four stages of the learning cycle (shown below) have to be addressed.

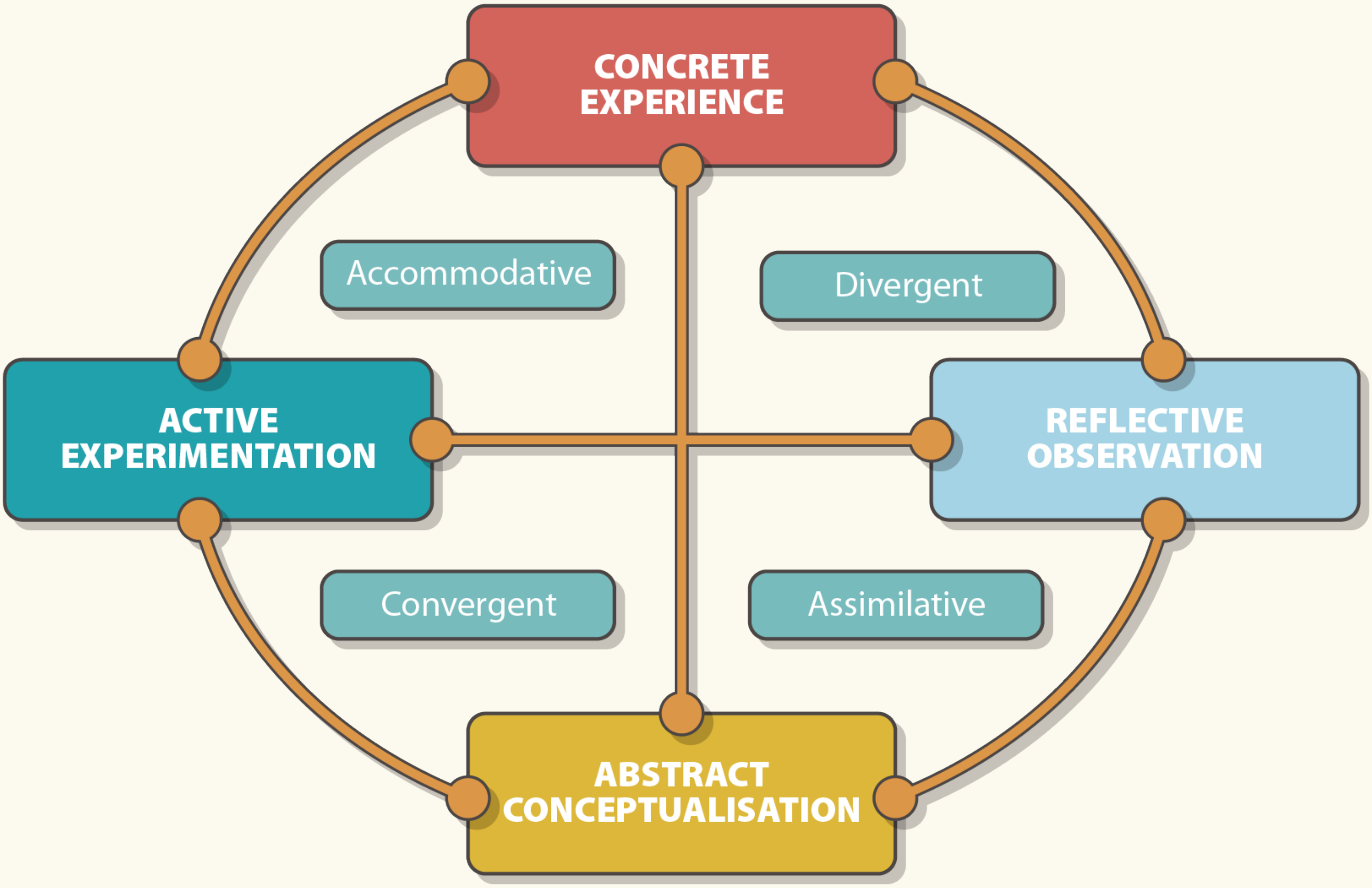
The Four Learning Styles

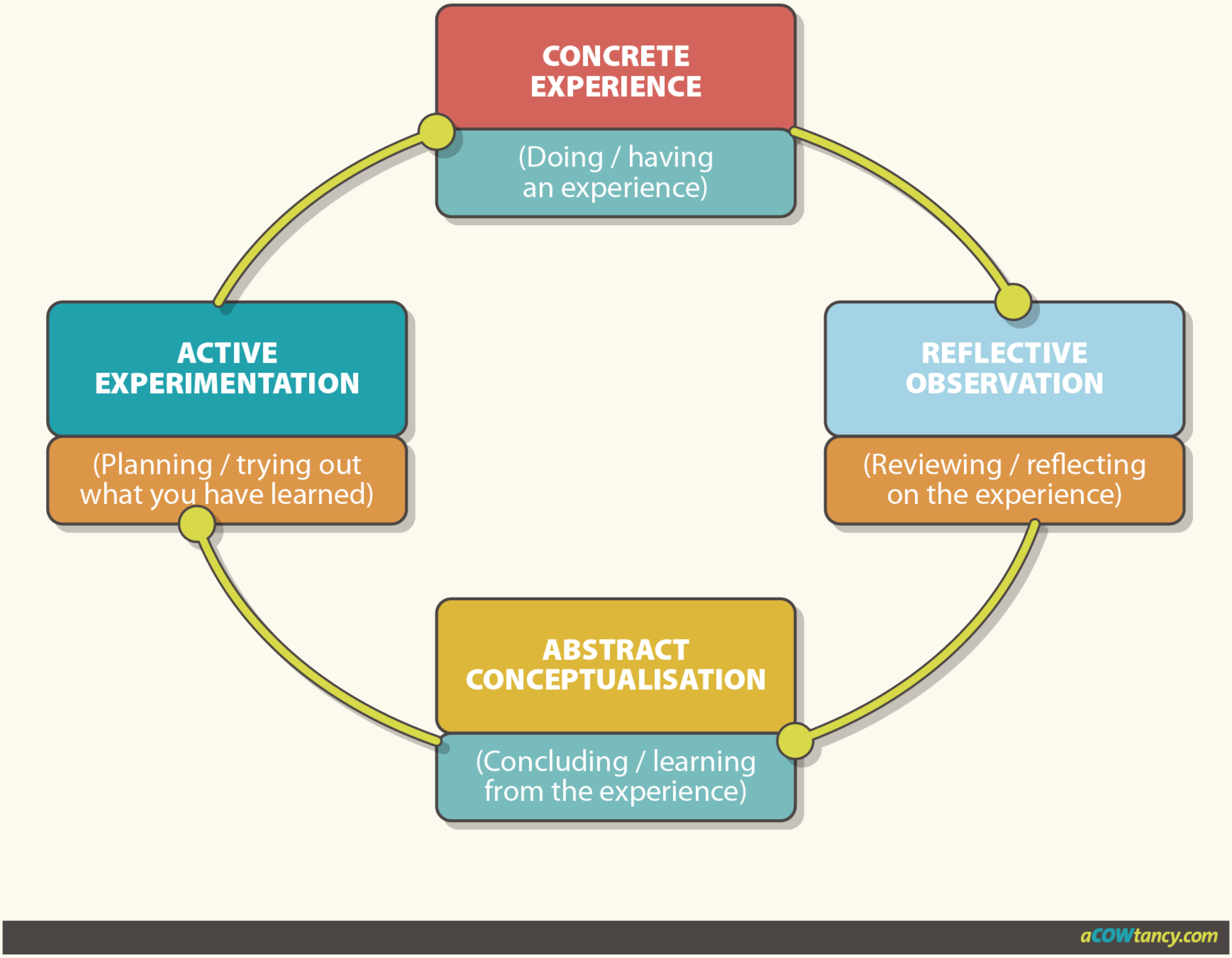
1. **Accommodative** – feeling and doing – strong preference for concrete experiences and active experimentation (hands on).

2. **Divergent** – feeling and watching – preference for concrete experiences, but to reflect on these from different perspectives.

3. **Assimilative** – thinking and watching – prefers to swing between reflection and conceptualisation and will use inductive reasoning to develop new theory.

4. **Convergent** – thinking and doing – prefers to apply ideas, will take an idea and test it out in practice.





Learning styles – Honey and Mumford

There are different ways of learning and people learn more effectively if they are aware of their own learning style preferences.

Most people exhibit clear strong preferences for a given learning style.

We should not assume that the ability to use or 'switch between' different styles comes easily or naturally to many people.

People who have a clear learning style preference, for whatever reason, will tend to learn more effectively if learning is geared to their preference.

For instance – according to Kolb:

> people who prefer the 'assimilating' learning style will not be comfortable being thrown in at the deep end without notes and instructions

> people who prefer to use an 'accommodating' learning style are likely to become frustrated if they are forced to read lots of instructions and rules, and are unable to get hands on experience as soon as possible.

Honey and Mumford designed a self description questionnaire so that people can discover their preferred learning style.

The scoring reveals the person's strength of preference for each of the four learning styles.

> Those who like active learning tick statements such as 'I often act without considering the possible consequences' and 'I am often one of the people who puts life into a party'.

> Reflectors agree with statements such as 'I like the sort of work where I have time for thorough preparation' and 'I am always interested to find out what people think'.

> Theorists tick statements such as 'I tend to solve problems using a step by step approach'.

> Pragmatists agree with 'What matters most is whether something works in practice'.

A feature of Honey and Mumford's model is that it provides suggestions about the best ways for individuals to learn.

The most effective learning methods are different for each learning style.

1. **Activists** – have a practical approach to training, are flexible and optimistic.

   They prefer practical problems, enjoy participation and challenge, are easily bored and have a dislike of theory.

   They must have handson training.

2. **Theorists** – require their learning to be programmed and structured; designed to allow time for analysis; and provided by people who share the same preference for ideas and analysis.
3. **Reflectors** – need an observational approach to training.

   They need to work at their own pace – slow, cautious and non participative – where conclusions are carefully thought out.

   They do not find learning easy especially if rushed.

4. **Pragmatists** – need to see a direct value and link between training and real problems and aim to do things better.

   They enjoy learning new techniques and tasks and are good at finding improved ways of doing things.

Roles in the Learning Process

THE ROLE OF THE HUMAN RESOURCES DEPARTMENT AND INDIVIDUAL MANAGERS IN THE LEARNING PROCESS

Within organisations, HR Department programmes are divided into three main categories:

1. training for the present
2. educating for the future
3. developing to lead.

The main characteristics of each include:

Training usually implies a planned process to modify attitude, knowledge, skill or behaviour to achieve effective performance in an activity or range of activities.

It is job orientated rather than personal.

Education is usually intended to mean basic instruction in knowledge and skills designed to enable people to make the most of life in general.

It is personal and broadly based.

Development suggests a broader view of knowledge and skills acquisition than training, concerned more with changes in attitudes, behaviour and potential than with immediate skill.

It relates more to career development than job development – learning for growth of the individual, but not related to a specific present or future job.

Role of Management in a learning organisation

The role of the management in a learning organisation is to encourage continuous learning and acquisition of new knowledge and skills and to transform these into actual behaviour, products and processes within the organisation

The training manager is responsible for determining, organising, managing and directing training activities as well as acting in

an advisory capacity.

Responsibility for training is usually shared between personnel training specialists and departmental supervisors.

Training and development methods for individuals include:

1. Training courses, both external and in-house
2. Mentoring
3. Coaching
4. Computerised interactive learning
5. Planned experiences
6. Self managed learning.

Training and Development Process

THE TRAINING AND DEVELOPMENT PROCESS

Identifying training needs

> The training needs will be indicated by a job training analysis.
>
> However, it is vital that the line manager begins with an understanding of the organisational strategy and departmental goals and objectives before he or she carries out the training needs analysis.

performance appraisal	·each employee's work is measured against the performance standards or objectives established for their job ·training and development needs are considered in terms of future job performance as well as in terms of improving current performance.
analysis of job	·the skills and knowledge specified in the

requirements	· appropriate job description are compared with data concerning jobs and activities, e.g. job descriptions, personnel specifications, and leadership and communication activities to identify candidates for training.
organisational analysis	· uses data about the organisation as a whole, e.g. its structure, markets, products or services, human resources requirements, etc. · the key success factors are identified and analysed into hr activities.

Defining the learning required

> Specify the knowledge, skills or competencies that have to be acquired.

Setting training objectives

> As with all objectives these should have clear, specific, measurable targets in relation to the behaviour and standard of behaviour in order to achieve a given level of performance

Planning the training

> This covers who provides the training, where the training takes place and divisions of responsibilities between trainers, line managers or team leaders and the individual personally

Delivering/implementing the training

> A combination of formal and on-the-job training programmes will be use

Evaluating training

> A cost-benefit analysis with feedback to improve selection of method and delivery

Terms and characteristics of “training", "development", and "education" & the benefits of effective training and development in the workplace

Education

is defined as ‘the activities which aim at developing the knowledge skills, moral values and understanding required in all aspects of life rather than a knowledge skill related to only a limited field of activity’.

> Education is usually intended to mean basic instruction in knowledge and skills designed to enable people to make the most of life in general.
>
> It is personal and broadly based.

Training

is ‘the planned and systematic modification of behaviour through learning events, programmes and instruction which enable individuals to achieve the level of knowledge, skills and competence to carry out their work effectively’.

> Training usually implies a planned process to modify attitude, knowledge, skill or behaviour to achieve effective performance in an activity or range of activities.
>
> It is job orientated rather than personal.

Development

is ‘the growth or realisation of a person’s ability and potential through conscious or unconscious learning and educational experiences’.

> Development suggests a broader view of knowledge and skills acquisition than training, concerned more with changes in attitudes, behaviour and potential than with immediate skill.
>
> It relates more to career development than job development – learning for growth of the individual, but not related to a specific present or future job.

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Review and appraisal of individual performance

Performance Assessment

EXPLAIN THE IMPORTANCE OF PERFORMANCE ASSESSMENT

Judgements and choices about people have to be made within all organisations, and for the sake of everyone involved, it is desirable that they should be made on the basis of systematic evaluation rather than casually, and known to be made in a way which is as fair and acceptable as possible.

Performance appraisal may be defined as **'the regular and systematic review of performance and the assessment of potential with the aim of producing action programmes to develop both work and individuals'**.

Performance appraisal aims to improve the efficiency of the organisation by ensuring that the individual employees are

performing to the best of their ability and developing their potential for improvement.

Appraisal schemes can contribute usefully to all or many of the organisational objectives and thus they should be considered of utmost significance.

Performance of Human Resources

EXPLAIN HOW ORGANISATIONS ASSESS THE PERFORMANCE OF HUMAN RESOURCES

An effective appraisal system can be used to assess attitudes, behaviour and performance but must have a balance of both measures of results and measures of activities.

They may be a combination of:

- **quantitative measures** using some form of rating scale

- **qualitative measures** involving an unstructured narrative report on specific factors and overall levels of behaviour and work performance.

A key issue in performance appraisal is determining what constitute valid criteria or measures of effective performance.

The problem is made more difficult because almost all jobs have many dimensions so that performance appraisal must employ multiple criteria or measures of effectiveness in order to accurately reflect the actual performance of the employee.

Beer et al. (1984) suggest four criteria for assessing performance:

1. **high commitment** – the workforce is motivated and understanding, and are willing to interact with management about changes within the organisation.

   Improved commitment may lead to more loyalty and better performance for the business.

It can also benefit the individual through enhanced self worth, dignity, psychological involvement, and identity

2. **high competence** – the capacity of employees to learn new tasks and roles if the circumstances require it and the organisation's ability to attract, keep, or develop employees who have valuable skills and knowledge
3. **cost effectiveness** – can be evaluated in terms of wages, benefits, turnover, absenteeism, strikes, etc.
4. **higher congruence** – the internal organisation, the reward system, and the 'input, throughput, and output' of personnel, which need to be structured in the interests of all stakeholders.

Appraisal criteria may include the following:

volume of work produced
within time period evidence of work planning personal time management effectiveness of work under pressure
knowledge of work
gained through experience gained through training courses gained prior to employment
quality of work
level of analytical ability level of technical knowledge accuracy judgement exercised cost effectiveness
management skills
communication skills motivation skills training and development skills delegation skills
personal qualities:
decision making capabilities flexibility adaptability assertiveness team involvement motivation

commitment to organisational goals

Appraisal systems are often misunderstood and mismanaged.

Appraisals are central both to human resource management and performance management.

Understanding their role, objectives, benefits and purpose is important to all employers.

Careful preparation and understanding is required if the appraisal process is to be successful, worthwhile and relevant.

Appraisal systems exist to improve organisational efficiency by ensuring that individuals perform to the best of their ability, develop their potential, and earn appropriate reward.

This in turn leads to improved organisational performance.

Appraisals have three main purposes

These are often misunderstood.

1. The first is to measure the extent to which an individual may be awarded a salary increase compared with his or her peers.

   This is the **reward review component**.

2. The second purpose of an appraisal is to identify any training needs and, if appropriate, to provide training and development to enable an individual to help the organisation to achieve its objectives.

   This is the **performance review component**.

3. Finally, appraisals are also important to aid an individual's career development by attempting to predict work that the individual may be capable of in the future.

   This is the **potential review component**.

Employees often question the value and usefulness of the time and effort taken up by an appraisal.

However, it establishes key results that an individual needs to achieve within a time period while also comparing the individual's performance against a set and established standard.

The employee is not the only beneficiary - the organisation benefits through identifying employees for promotion, noting areas for individual improvement, and by using the system as a basis for human resource planning.

for individual improvement, and by using the system as a basis for human resource planning.

Performance Appraisal

PERFORMANCE APPRAISAL AND ITS PURPOSES

An appraisal is a process by which the progress, performance, results and sometimes personality of an employee are reviewed and assessed by his or her immediate superior.

It is customary for appraisals to be made by an employee's immediate superior, and this has an obvious rationale.

The superior has a wider view of the organisation's objectives and his subordinate is responsible for the work to accomplish such objectives.

Thus, the immediate superior is the person best placed to judge how well his junior has done, and help/guide him to do better.

For an effective performance appraisal, employees must know not only what is expected of them, but also the reason for doing the job the way they do it, and how good/bad they are at their work.

Each person will be appraised individually on:

1. the progress they have been making in their job
2. their strengths and weaknesses
3. their future needs as regards training and development
4. their potential for promotion.

The other side of this is that management are fully aware of what the staff are supposed to be doing and how they are actually doing it.

This can be achieved if performance criteria are established jointly, appropriate on the job behaviour is mutually understood and the review is a continual process focused on growth and development.

The organisation's appraisal scheme is inextricably linked to its control structure:

1. it clarifies specific jobs relating them to the objectives of the organisation
2. it develops realistic and appropriate performance standards
3. it assesses competencies
4. it uses feedback and reward to improve performance
5. it links performance to organisational goals.

It aims to make the behaviour of employees predictable and, hence, controllable.

Obviously any rating could only occur in situations where the climate is open, that is, the subordinate is made comfortable and the immediate superior is feeling so as well.

Ideally appropriate performance standards should work under defined procedures.

Performance Appraisal Process

THE PERFORMANCE PROCESS

The process of performance appraisal usually entails:

1. identifying the **criteria for assessment** – perhaps based on job analysis, job requirements, performance standards and person specification
2. assessing **competence**
3. manager **preparing an appraisal report** – sometimes both appraiser and appraisee prepare a report and they are then compared.

   Assessments must be related to meaningful performance criteria and a common standard so that comparisons can be made between individuals
4. manager **interviewing** the jobholder for an exchange of views about the appraisal report
5. identifying and agreeing **future goals** and targets for improvement, solutions to problems
6. manager's **own superior reviewing the assessment** to establish the fairness of the procedure
7. agreeing, preparing and **implementing action points**, plans to achieve improvements, e.g. training needs

8. **following up** – giving the results of the appraisal, monitoring the progress of the action plan, carrying out agreed actions on training, promotion and so on and giving regular feedback.

While many people view the performance appraisal process as beginning after 6 months or 12 months of employment and view it as a review of how the employee has performed for the previous period, a successful performance management process begins during the hiring process.

It continues as an ongoing cycle from recruitment, through selection, induction/orientation, and goal setting and on to performance appraisal and evaluation.

This process occurs in 3 stages with the following components:

1. **Review and comparison** – consists of the individual being assessed and analysed in terms of objectives, tasks, workflows and results achieved.
2. **Management by objectives** – managers agree certain objectives with their subordinates and then review the results achieved.

   It is based on the idea that if subordinates know their objectives they are more likely to reach them.
3. **The task-centred method** – relates to what the subordinate is doing and how they do it.

   It avoids the more formal approach to staff appraisal and adopts a continual assessment approach.

Benefits of Effective Appraisal

THE BENEFITS OF EFFECTIVE APPRAISAL

Effective appraisal is grounded in the belief that feedback on past performance influences future performance, and that the process of isolating and rewarding good performance is likely to repeat it.

Agreement on challenging but achievable targets for performance motivates employees by clarifying goals and setting the value of incentives offered.

Staff appraisal can have benefits for both the employer (the organisation) and the employee:

benefits for the employer	benefits for the employee
• it provides a formal system for assessing the performance and potential of employees, with a view to identifying candidates for promotion.	• the employee gets feedback about performance at work, and an assessment of competence.
• it provides a system for identifying ways of improving the competence of employees, in order to raise the general level of efficiency and effectiveness of the work force.	• a formal appraisal system offers the employee an opportunity to discuss future prospects and ambitions.
• it is a valuable system for humanresource planning, and ensuring that employees are ready for promotion, to fillmanagement job vacancies that arise.	• an appraisal interview may beused as a basis for considering pay and rewards.
• if it is well managed, communications can be improved between managers and staff and so improve working relationships.	• appraisal can be used to identify and agree measures for further training anddevelopment, to improve the employee's competence.

Effective Appraisal

THE BARRIERS OF EFFECTIVE APPRAISAL AND HOW THESE MAY BE OVERCOME

There have been studies on the effects of appraisal, which show some negative effects:

criticism had a negative effect on goal achievement

subordinates generally react defensively to criticism during appraisal interviews

inferior performance resulted from defensive reactions to criticism

repeated criticism had the worst effect on subsequent performance of individuals who had little self confidence.

J Lockett suggests that appraisal barriers can be identified as follows:

appraisal as confrontation	l differing views regarding performance. l feedback is subjective – the manager is biased, allowing personality differences to get in the way of actual performance. l feedback is badly delivered. l assessment is based on yesterday's performance not on the whole year. ldisagreement over prospects and solutions.
appraisal as judgement	l appraisal is seen as a one sided process – the manager is judge, jury and counsel for the prosecution. lappraisal is imposed.
appraisal as chat	l lack of will from either party. l an unproductive conversation. lno outcomes set.
appraisal as bureaucracy	l a traditional ceremony. lno purpose or worth.
appraisal as an annual event	l a traditional ceremony. lno purpose or worth.
appraisal as unfinished business	l frustration at limited appraisal time. l no belief that issues will be followed up.

Overcoming the barriers to effective appraisal

One of the barriers to effective appraisal was the view of employees that the annual appraisal was not treated as something

important, and that nothing was done after an appraisal interview had finished.

1. There must be a system of follow up and feedback.
2. There may be agreement between the interviewer and the employee in the appraisal interview about further training that the employee needs, or ways in which the employee can be developed.

   These agreements should be recorded as part of the official record of the appraisal interview.
3. The action plan that has been agreed with the employee should be reported to senior management and the HR department.
4. The interviewer is normally the manager of the employee.

   He or she should follow up the appraisal report and should arrange the training or development that has been agreed.
5. At the next appraisal interview, the interviewer and the employee should discuss whether the agreed training or development was provided, and what has been its effect.

The appraisal system itself should be assessed and the claims made by Lockett will need to be addressed to ensure:

Relevance – does the system have a useful purpose and is it relevant to the needs of both the organisation and the individual?

Fairness – is there reasonable objectivity and standardisation of criteria throughout the organisation?

Serious intent – is the management committed to the system or has it been thrust on them by the HR department? Do the appraisers have training in interviewing and assessment techniques? Is there a demonstrable link between performance and reward?

Cooperation – is the appraisal a participative, problem solving activity with the appraisee given time and encouragement to prepare for it to be able to make a constructive contribution? What type of conclusion emerges from the process?

Efficiency – is it costly and difficult to administer and does it seem too time consuming compared with the value of its outcome?

Another way of ensuring effective appraisals is to apply the 4Fs:

1. **Firm** – managers should be willing to discuss negative as well as favourable aspects of performance.
2. **Factual** – subjective aspects should be avoided.
3. **Fair** – all employees should be treated the same.
4. **Frequent** – appraisals should be held on a regular basis rather than when a problem arises.

Approaches to Performance Appraisal

Tell and Sell -

This emphasises the manager's role as judge, telling the employee the outcome of the appraisal and where they need to improve.

This approach may be effective with inexperienced employees, but is unlikely to be well received by someone who feels they have the capacity to judge their own performance.

It is highly controlling and it is mostly a one-way communication system.

Tell and Listen -

The appraiser still takes on the role of judge, passing on the results of an appraisal which has already been completed, but then elicits the appraisee's reactions.

This may enable the appraisee to influence the results, by offering evidence or explanations which were previously unknown to the appraiser.

Certainly this approach is more likely to involve the appraisee in decisions about how development needs might be addressed, such as whether they would prefer to attend a training course or receive such on the job coaching.

Nevertheless, identification of the development need in the first place remains with the appraiser.

Most of the control therefore remains with the appraiser, but the appraisee is allowed their say within the limits that the appraiser allows.

Problem solving approach -

described as a very different kind of interview.

The emphasis is not on the judgments of the appraiser but the growth and development of the appraisee.

The appraiser's role is to elicit their self-reflection, so that the appraisee is able to identify their own strengths and development needs, and how these needs might be met.

The term 'problem solving' may be off-putting to the employee – the appraisal may reveal a high level of performance with few problems at all! 'Non-directive interviewing' is a possible alternative, and is more likely to provide a focus on future development.

360 degree approach -

founded on the idea that any employee's performance is seen by many others–their manager, peers, direct reports, customers, etc.

Nevertheless, none of these people see anyone else's performance all the time.

360- degree appraisals improve on any evaluation done by one person by combining ratings from many people who see different parts of an employee's performance.

Effectiveness of Performance Appraisal

HOW THE EFFECTIVENESS OF PERFORMANCE APPRAISAL MAY BE EVALUATED

Evaluating the appraisal scheme can involve the following:

1. calculating the costs and benefits of the appraisal process
2. investigating if there have been any improvements in performance by the individual and the organisation
3. asking appraisers and appraisees their opinions on the process
4. monitoring performance results
5. watching take up of training and development opportunities
6. checking succession and promotion processes/results
7. reviewing other factors such as staff turnover – a figure that is too high or too low is an indication that something is wrong in an organisation.

   Also, the appraisal scheme ought to identify individuals who are ready for promotion and if many talented people leave on the grounds that there are no job opportunities then the overall development system may be at fault.

The process of assessment and staff appraisal should highlight some of the causes of dissatisfaction, find solutions and remedy them before the employee becomes disillusioned, looks for another job and resigns.

The causes of staff leaving fall into three categories:

1. **Discharge**

   – as a result of an employee's unsuitability, disciplinary action or redundancy.

2. **Unavoidable**

– because of marriage, moving house, illness or death.

3. **Avoidable**

– due to pay, working conditions, relationships with work colleagues.

From records, the staff turnover can be calculated by dividing either the total separations (those leaving the organisation) or the total replacements by the average number in the workforce, and expressing the result as a percentage.

Examination of this figure may highlight vital information, e.g. poor selection techniques or poor working conditions.

Personal Effectiveness and Communication in Business

Personal effectiveness Techniques

Importance of Effective Time Management

EFFECTIVE USE OF TIME

Whatever the qualities or attributes of a successful manager, or the qualities of the people working for him or her, one essential underlying criterion is the effective use of time.

Time is a unique resource – you cannot hire, rent or buy more time.

The supply is totally irreplaceable and everything requires time.

The purpose of time management (TM) is to:

1. plan the best use of time
2. cut down on time wasted
3. devote more time to the really important issues, or jobs on hand
4. complete more in the time available

4. complete more in the time available.

This will allow you to:

- eliminate wastage
- refuse excessive workloads
- monitor project progress
- allocate resource (time) appropriate to a task's importance
- plan each day/week efficiently.

The first point we have to recognise is that we are the persons responsible for the effective management of our own time.

A good place to start is to set our goals, missions and overall objectives.

We can then plan ahead and maximise our time by devoting maximum effort to activities which directly contribute to the achievement of these goals.

Effective Time Management

THE BARRIERS OF EFFECTIVE TIME MANAGEMENT AND HOW THEY MAY BE OVERCOME

Three keys to effective time management are:

1. remembering
2. setting priorities

3. motivation

It is easy to fall into the trap of thinking "I won't forget that."

But the important thing is not just to remember it, but to remember it at the right time -- a time when you can take the first step in doing it.

Some people say they do not need to spend time planning. That may be true.

If you have a list of things to do that are all about equally important, and if you are sure that the most important things are on the list, then you do not need to spend any time comparing them.

Just start doing one of them, it does not matter which one.

But for most people most of the time, some of the things are more important than others, so it is worthwhile taking a few minutes to read over the list and choose the most important to do first.

John Adair in his book “How to manage your time”, suggests that there are 5 problems common to almost all managers.

1. Procrastinating
2. Delegating ineffectively
3. Mismanaging paperwork
4. Holding unnecessary meetings
5. Failing to set priorities

Apart from working to plans, checklists and schedules, organizations might be improved by the **ABCD method in-tray management**.

Act (immediately)

Bin (it)

Create (a plan)

Delegate

Delegate

The main influences of effective time management are:

- Culture
- Colleague's Influence
- Staff Demands
- Individual's Personality
- Individual's Personal Skills
- Nature of Work
- Management Style

Internal Barriers

- Discipline
- Procrastination (Putting off)
- Lack of Motivation

External Barriers

- Workload Issues
- Available Resources

overcome the internal barriers	overcome the external barriers
be assertive – identify your time wasters and resolve to deal with them, learn to say no, delegate.	do the right thing right – doing the right thing is effectiveness; doing things right is efficiency. focus first on effectiveness (identifying what is the right thing to do),
identify and make use of your personal biorhythms, or ‘up’ time and ‘down’ time.	then concentrate on efficiency (doing it right).
conquer procrastination – find out what causes you to put off doing something and	eliminate the urgent – urgent tasks with short term consequences often get done
remedy it, e.g. a feeling of inadequacy could be due to lack of information, lack of a particular skill or lack of training.	to the detriment of the important tasks – those with long term, goal related implications.
promise yourself a reward.	break big jobs into little steps.
	use negotiation to improve the use of time.

Role of Information Technology

THE ROLE OF INFORMATION TECHNOLOGY IN IMPROVING PERSONAL EFFECTIVENESS

IT Planning Aids:

- Electronic personal organisers
- Project management software
- Hand-held computerised dairies
- Integrated software packages

Integrated software packages like MS Outlook® has the following features for personal productivity management:

1. A calendar allows users to timetable their activities for the day and plan meetings with others.

   It will also be able to generate reminders, for example when a deadline is approaching, or the date of a meeting.
2. An address book.
3. To do lists.
4. A journal. This can automatically record interactions with people involved in a project, such as email messages and record and time actions such as creating and working on files.

   The journal will keep track of all of this and is useful both as a record of work done and as a quick way of finding relevant files and messages without having to remember where each one is saved.
5. A jotter for jotting down notes as quick reminders of questions, ideas, and so on.

Handheld

Computers like the Palm do not attempt to do the work of a complete computer.

It tracks appointments and contacts, synchronises them with a desktop computer, and takes the occasional note.

The features include

- Date book
- Address book
- To Do list

- To Do list
- Calculator
- Expense Tracking
- Memo pad

Consequences of Ineffectiveness at Work

Ineffective at Work

THE MAIN WAYS IN WHICH PEOPLE AND TEAMS CAN BE INEFFECTIVE AT WORK

It is a tough job balancing needs of the organisation and the needs of a team.

The main problems resulting in ineffective work are:

- uncommitted workforce
- unequal participation between workforce
- unmotivated workforce
- people having different goals and priorities
- distorted communication
- inadequate training
- no job description
- lack of team support from management

lack of team support from management

conflict between team members

Ineffectiveness Affects on Organisational Performance

HOW INDIVIDUAL OR TEAM INEFFECTIVENESS CAN AFFECT ORGANISATIONAL PERFORMANCE

Employees are the lifeblood of an organisation.

How they feel about the work they are doing and the results received from that work directly impact an organisation's performance and, ultimately, its stability.

> For instance, if an organisation's employees are highly motivated and proactive (and therefore being effective), they will do whatever is necessary to achieve the goals of the organisation as well as keep track of industry performance to address any potential challenges.
>
> This two-prong approach builds an organisation's stability.
>
> An organisation whose employees have low motivation and are ineffective in their work are completely vulnerable to both internal and external challenges.
>
> Such employees will not dare to take that extra mile to maintain the organisation's stability.
>
> An unstable organization ultimately underperforms.

Competence Frameworks and Personal Development

Competence Framework

THE FEATURES & HOW A COMPETENCE FRAMEWORK UNDERPINS PROFESSIONAL DEVELOPMENT NEEDS

PROFESSIONAL DEVELOPMENT NEEDS

What is competence framework?

Competence may be defined as the behaviours (and, where appropriate, technical attributes) that individuals must have, or must acquire, to perform effectively at work – that is, the term focus on the personal attributes or inputs of the individual.

A 'competency framework' is a structure that sets out and defines each individual competency (such as problem-solving or people management) required by individuals working in an organisation or part of an organisation

Competencies are a signal from the organisation to the individual of the expected areas and levels of performance.

They provide the individual with a map or indication of the behaviours and actions that will be valued, recognised and in some organisations rewarded.

Competencies can be understood to represent the language of performance in an organisation.

Creating a competency framework is an effective method to assess, maintain, and monitor the knowledge, skills, and attributes of people in organisations.

The framework allows to measure current competency levels to make sure staff members have the expertise needed to add value to the business.

It also helps managers make informed decisions about talent recruitment, retention, and succession strategies.

And, by identifying the specific behaviours and skills needed for each role, it enables the company to budget and plan for the training and development your company really needs.

Personal and Continuous Professional Development

HOW PERSONAL AND CONTINUOUS PROFESSIONAL DEVELOPMENT CAN INCREASE PERSONAL EFFECTIVENESS AT WORK

Personal effectiveness encompasses both the central importance of acknowledging that we all need to continuously strive to achieve our potential and live fulfilled lives, for our own sense of self-worth and satisfaction.

As consequence, we improve our ability to reach out and touch the lives of others whilst being open and responsive to their needs and wants.

Underlying this is the assumption that our actions are conducted with positive intent, so that in meeting our own needs and wants we behave with integrity and generosity of spirit.

But why should this emphasis on personal growth and development matter in a business context?

> It matters because if we are not fully effective as individuals, we are unlikely to be effective as leaders and managers, our relationships may be wanting, our ability to influence reduced and our performance and contribution to our organisations diminished.
>
> There is an inevitable link between personal and organisational success.
>
> When individual effectiveness and integrity is lacking it can result in serious problems.
>
> Personal and professional development opens the door into raised self-awareness that encourages to take action to change what one don't like and work on what s/he do really well, so that a person becomes distinctive and strong in his own self-belief.
>
> These are core qualities for leadership at all levels and for success in any role.

Employee Effectiveness

THE PURPOSES AND PROCESSES OF COACHING, MENTORING AND COUNSELLING AND THEIR BENEFITS

Mentoring is a process where one person offers help, guidance, advice and support to facilitate the learning or development of another.

It follows an open and evolving agenda and deals with a range of issues.

The mentoring process consists of three core activities, which set it apart from other

developmental activities:

1. exchange of knowledge that is unique to a business, industry, profession or organisation
2. a sustained partnering relationship
3. measurable, beneficial outcomes for the individual parties involved and for the larger organisation.

A mentor is a guide, counsellor, tutor or trainer who:

can give practical study support and advice

can give technical, ethical and general business guidance

can help with development of interpersonal and work skills

is an impartial sounding board – no direct reporting responsibility

is a role model who can help improve career goals.

Coaching

focuses on achieving specific objectives, usually within a preferred time period.

It is more about improving the performance of someone who is already competent rather than establishing competency in the first place, or focusing on the task and ensuring that the learner gains competence.

1. It is usually on a one to one basis, is set in the everyday working situation and is a continuing activity.
2. It involves gently nudging people to improve their performance, to develop their skills and to increase their self confidence so that they can take more responsibility for their own work and develop their career prospects.
3. Most coaching is carried out by a more senior person, or manager.

   What is essential is that the coach should have the qualities of expertise, judgement and experience that make it possible for the person coached to follow the guidance.

Counselling

can be defined as 'a purposeful relationship in which one person helps another to help himself/herself'.

It is a way of relating and responding to another person so that the person is helped to explore his/her thoughts, feelings and behaviour with the aim of reaching a clearer understanding.

The clearer understanding may be of himself/herself or of a problem, or of the one in relation to the other.

The counsellor needs to be:

1. **Observant**

   - There is a need to note behaviour, which may be symptomatic of a problem.

2. **Sensitive**

   - There is a need to acknowledge and understand that another person's beliefs and values may be different from their own (for example religious beliefs).

3. **Empathetic**

   - There is a need to appreciate that the problem may seem overwhelming to the individual.

4. **Impartial**

   - There is a need to remain impartial and refrain from giving advice.

5. **Discreet**

   - There will be situations when an employee cannot be completely open unless they are sure that the comments they make will be treated with confidentiality.

Through active listening, the use of open questions and clarifications, the counsellor encourages reflection and help the client identify issues and solutions.

Counselling does not involve giving advice or making suggestions.

What advantages does counselling provide for the wider organisation?

It provides a means of understanding and addressing individual problems, which are very often not directly related to the workplace.

It also provides a confidential service for the employee to discuss problems without directly involving management.

Over the longer term, an organisation might develop counselling as part of its human resources policy, demonstrating a commitment to its employees beyond that normally expected.

Personal Development Plan

HOW A PERSONAL DEVELOPMENT PLAN SHOULD BE FORMULATED, IMPLEMENTED, MONITORED AND REVIEWED BY THE INDIVIDUAL

A **personal development plan** is a 'clear developmental action plan for an individual that incorporates a wide set of developmental opportunities including formal training'.

During their career, employees are increasingly encouraged to manage their own development.

In consultation with management, they might be asked to set up personal development plans whereby they set targets and propose actions/activities to achieve them.

Development is more general than training, is more forward looking and orientated towards the individual, and is concerned with enabling the individual to fulfil his or her potential.

The purpose of personal development is to ensure 'growth' during the person's career.

The growth should be triggered by a job that provides challenging, stretching goals.

The clearer and more challenging the goals, the more effort will be exerted, and the more likely it is that good performance will result.

If the person does a good job and receives positive feedback, he or she will feel successful (psychological success).

These feelings will increase the feelings of confidence and self esteem and lead to involvement in the work, which in turn leads to the setting of future stretching goals.

Stage 1

Analysis of current position – requires the individual, with their manager, to carry out a personal SWOT (strengths, weaknesses, opportunities, threats) analysis.

This can be as simple as assessing what an individual does by referring to the job description, evaluating which aspects of a job an individual likes and dislikes on the one hand, and those aspects that an individual does well and not so well in on the other.

Stage 2

Set Goals - following the above analysis, personal goals should be set for the individual.

The tasks the person does not do well are examined and reasons are established.

This can take the form of an alternative and more traditional type of SWOT analysis by examining the person's strengths and weaknesses.

Particular weaknesses should be identified as being the cause of failure to carry out certain tasks well.

This should then inform a personal set of objectives in order to overcome these weaknesses.

Goals should have the characteristic of SMART objectives:

Specific

Measurable

Attainable

Realistic

Time bounded

Stage 3

Draw up action plan – an action plan and training programme should be based on addressing the identified weaknesses and trying to move more of the tasks of the current role into the 'do well' side.

It is easier to improve the performance of individuals in tasks that they like performing than in those that they do not.

Sources of Conflict and Techniques for Conflict Resolution and R

Arising Conflict at Work

SITUATIONS WHERE CONFLICT AT WORK CAN ARISE

Conflict refers to a process in which one party (person or group) perceives that its interests are being opposed or negatively affected by another party.

Four primary levels of conflict may be present in organizations:

1. **Intrapersonal conflict**

   – occurs within an individual and commonly result in inner tensions and frustration

2. **Interpersonal conflict**

   – occurs when two or more individuals perceive that their attitudes, behaviours or preferred goals are in opposition

3. **Intragroup conflict**

   – refers to disputes among some or all of a group's members, which often affect a group's dynamics and effectiveness. Family-run businesses can be especially prone to intragroup and other types of conflict

4. **Intergroup conflict**

   – refers to opposition, disagreements and disputes between groups or teams.

Personal and Organisational Performance

HOW CONFLICT CAN AFFECT PERSONAL AND ORGANISATIONAL PERFORMANCE

Many people automatically assume that conflict is related to lower group and organisational performance.

This assumption is frequently incorrect.

Conflict can be either constructive or destructive to the function of a group.

Levels of conflict can be either too high or too low.

Either extreme hinders performance.

An optimal level is one at which there is enough conflict to stimulate creativity, allow tensions to be released and initiate the seeds for change.

Inadequate or excessive levels of conflict can hinder the effectiveness of a group or an organization, resulting in reduced satisfaction of group members, increased absence and turnover rates and eventually lower productivity.

Conflict Avoidance

HOW CONFLICT CAN BE AVOIDED

The avoiding style refers to unassertive and uncooperative behaviours.

A person uses this style to stay away from conflict, ignore disagreements or remain neutral.

The avoidance approach reflects an aversion (dislike) to tension and frustration and may involve a decision to let a conflict work itself out.

This style may be desirable under some situations such as:

- The issue is minor or only of passing importance and thus not worth the individual's time or energy to confront the conflict
- The individual does not have enough information to deal effectively with the conflict at that time
- The individual's power is so low relative to the other person's that there is little chance of causing change
- Others may resolve the conflict more effectively

Conflict Resolution or Referral

WAYS IN WHICH CONFLICT CAN BE RESOLVED OR REFERRED

1. **Direct Approach:**

   This approach concentrates on the leader confronting the issue head-on and is probably the best approach of all.

   Admittedly, conflict is uncomfortable to deal with, but it is best to look at issues objectively and to face them as they are.

   If criticism is used, it must be constructive to the recipients.

2. **Bargaining:**

    This technique is best used when both parties have some sort of idea or solution but simply cannot find common ground.

    Often a third party, such as a team leader, is needed to help find the compromise.

    Compromise involves give and take on both sides.

3. **Enforcement of Team Rules:**

    This technique is only used when it is obvious that a member does not want to be a team player and refuses to work with the rest.

    If enforcement has to be used on an individual, it may be best for that person to find another team.

4. **Retreat:**

    By simply avoiding it or working around it, a leader can often delay long enough for the individual to cool off.

    If this technique is used in the right environment and by an experienced leader, it can help to prevent minor incidents that are the result of someone having a bad day from becoming real problems that should never have occurred.

5. **De-emphasis:**

    This is a form of bargaining where the emphasis is on the areas of agreement.

    When parties realise that there are areas where they are in agreement, they can often begin to move in a new direction.

Communicating in Business

Communications

DEFINITION

In our everyday lives, we all communicate!!

Communication is the process of transmitting information from one person to another.

Communication always involves two or more people.

True leaders must handle communication effectively considering that a lot of time within an organisation is spent in order to solve problems, discuss future plans and delegate work.

Communication

is "the interchange of information, ideas, facts and emotions by two or more persons. It establishes relationships and makes organising possible."

> Without communication members of an organisation would be working in a vacuum considering no links can be undertaken with the people around us.
>
> The tasks of management in guiding, instructing, warning and encourage workers would become impossible.
>
> Imagine a person working in the production line of a factory producing denim jeans, and, let us assume that this labourer is in charge of sewing the pockets of the jeans and he is constantly conducting his work wrongly!
>
> If there is no communication and s/he continues to be unproductive, the final product will not qualify the final inspection and quality checking.
>
> As a result, therefore, the company will end up with unqualified goods that cannot be sold to the end customer (a process which at the end is getting no return to the organisation thanks to the lack of communication).

Methods and Patterns of Communication

METHODS OF COMMUNICATION USED IN THE ORGANISATION, HOW THEY ARE USED & THE MAIN METHODS AND PATTERNS OF COMMUNICATION

When we look beyond two person communication to the linkages among work groups, departmental or organizational members, we are concerned with communication networks, which are systems of communication lines linking various senders and receivers.

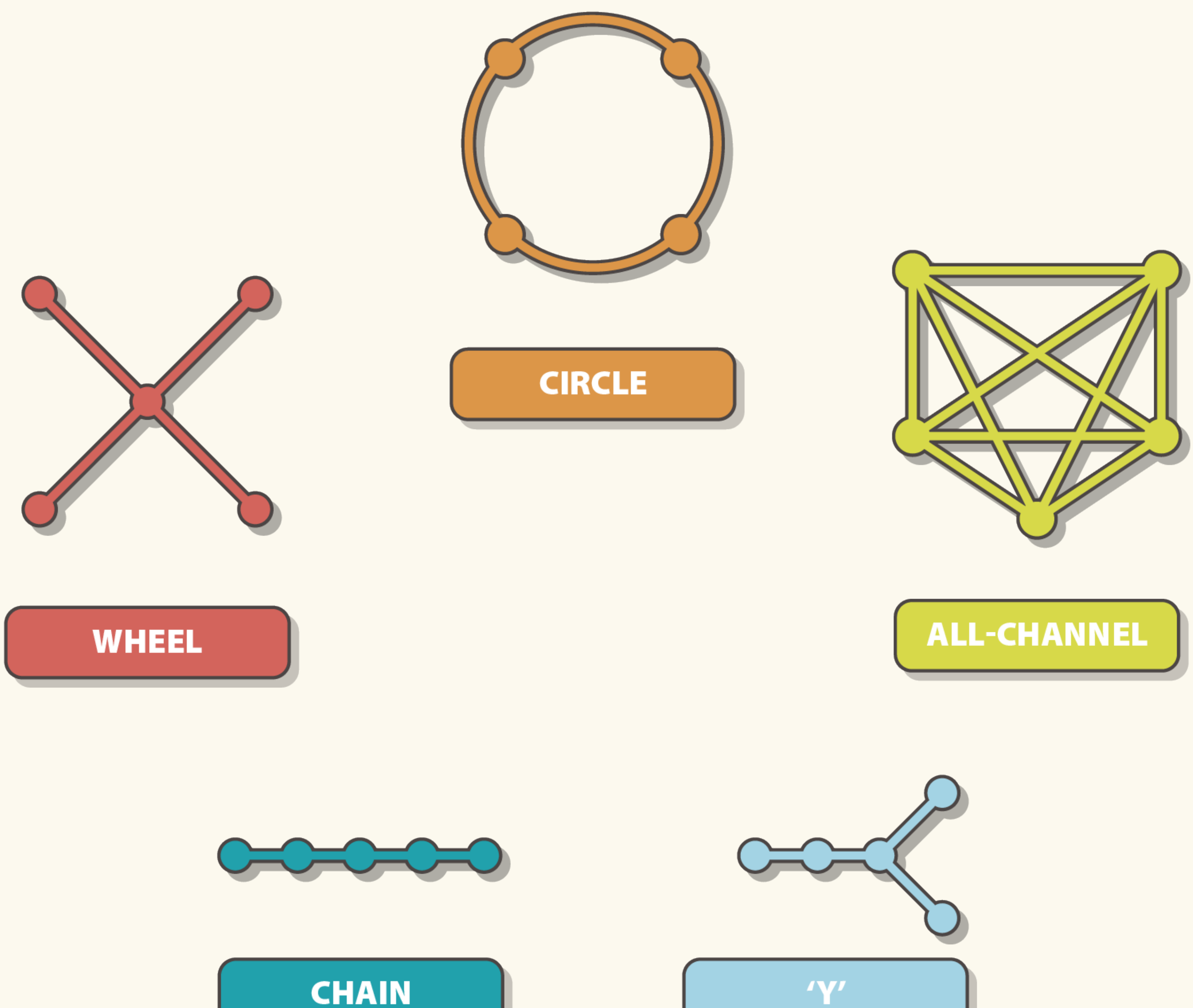
The flow of information is regulated by several factors:

1. the proximity of workers to one another

2. the rules governing who communicates with whom
3. the status hierarchy
4. other elements such as job assignments and duties.

Five major types have been studied in depth:

1. wheel or the star
2. circle
3. all channels
4. chain or the line
5. "Y"



There has been extensive research on communication networks.

The results of these studies indicate that each of the different networks has different strengths and weaknesses:

- In the centralised networks (chain, wheel and 'Y'), group members have to go through a person located in the central position in the network in order to communicate with others.

  This leads to unequal access to information in the group.

- In decentralised networks (circle and all channels) information can flow freely between members without having to go through a central person.

The main conclusions of the experiment were:

- The wheel is always the quickest way to reach a conclusion, and the circle the slowest.

- For complex problems, the all channel is the most likely process to reach the best decision.

- The level of satisfaction for individuals is lowest in the circle, fairly high in the all channel, mixed in the wheel, with the central figures usually expressing greater satisfaction, and the rest feeling isolated.

- Under time pressure the all channels system either restructures, to become a wheel, or disintegrates.

Type of Information

HOW THE TYPE OF INFORMATION DIFFERS AND THE PURPOSE FOR WHICH IT IS APPLIED AT DIFFERENT LEVELS OF THE ORGANISATION

The levels of decision-making and the information required to support it have been classified into three levels.

1. **Strategic Information**

   Helps senior managers with long term planning and the development of a strategic plan.

2. **Tactical Information**

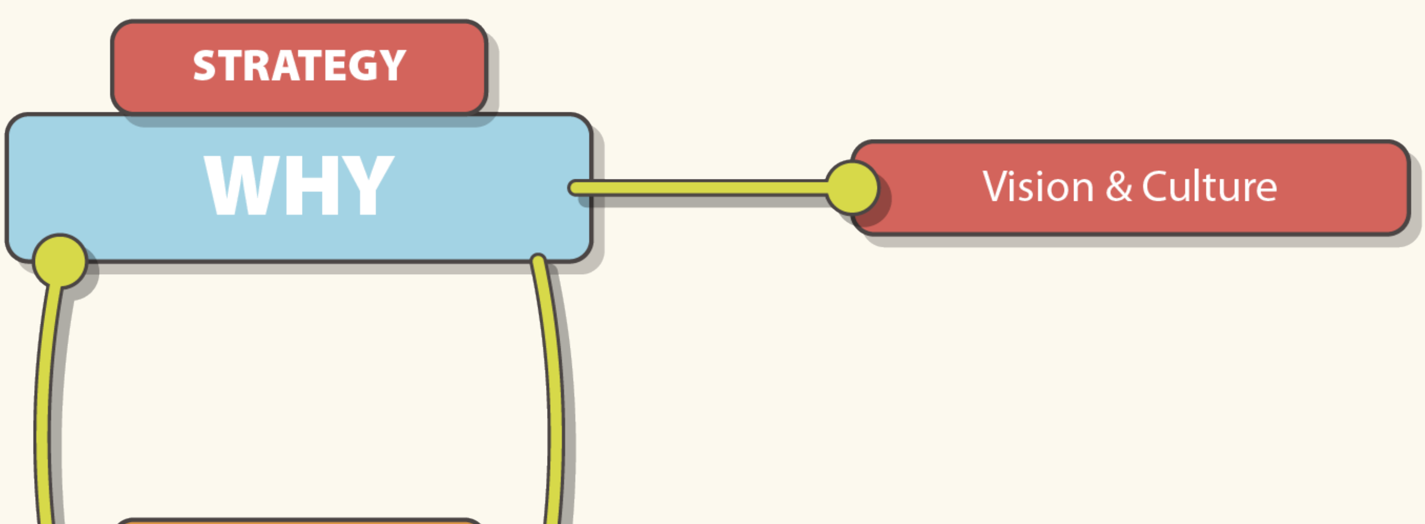
   To help middle management monitor and control the organisation.

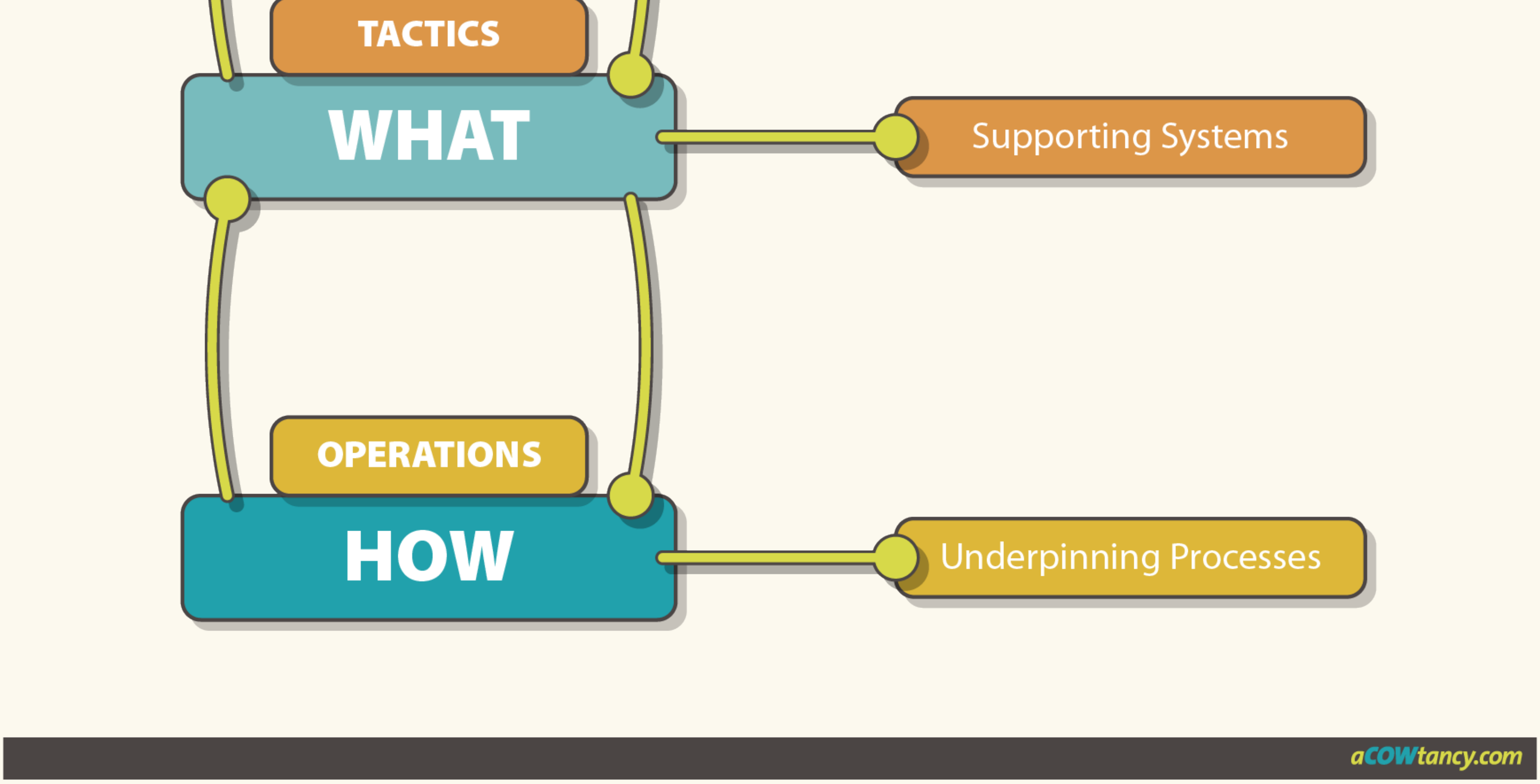
3. **Operational Information**

   To help knowledge and data workers design services/products, disseminate information and perform routine administrative tasks.

Example of a retail store:

> As a consumer you have to deal regularly with the information systems that support business operations at the many retail stores where you shop.
>
> Most retail shops now use computer-based information systems to help them record customer purchases, keep track of inventory and evaluate sales trends.
>
> Store operations would grind to a halt without support of such information systems.
>
> Information systems also help store managers make better decisions and attempt to gain a strategic competitive advantage.
>
> For example, decisions on what lines of merchandise need to be added or discontinued, or on what kind of investment they require, are typically made after an analysis provided by computer-based information systems.





Good Quality Information

THE ATTRIBUTES OF GOOD QUALITY INFORMATION

Businesses are often criticised for producing too much information simply because their information systems can do it.

A good way of ensuring relevance is to closely define the objectives of any information report and produce information that are **ACCURATE**.

A – Accurate
C – Complete
C – Cost
U – Understandable
R – Relevant
A – Adaptable
T – Timely
E – Easy to use

Accurate

- information should be sufficiently accurate for its intended purpose and the decision-maker should be able to rely on the information.

Complete

– the more complete information is, the more reliable it will be.

Cost

– the information should not cost more to obtain than the benefit derived from it.

Understandable

– user friendly information is much more readily acted upon.

Relevant

– the information provided should concentrate on the essentials and ignore trivia (useless information)

Adaptable

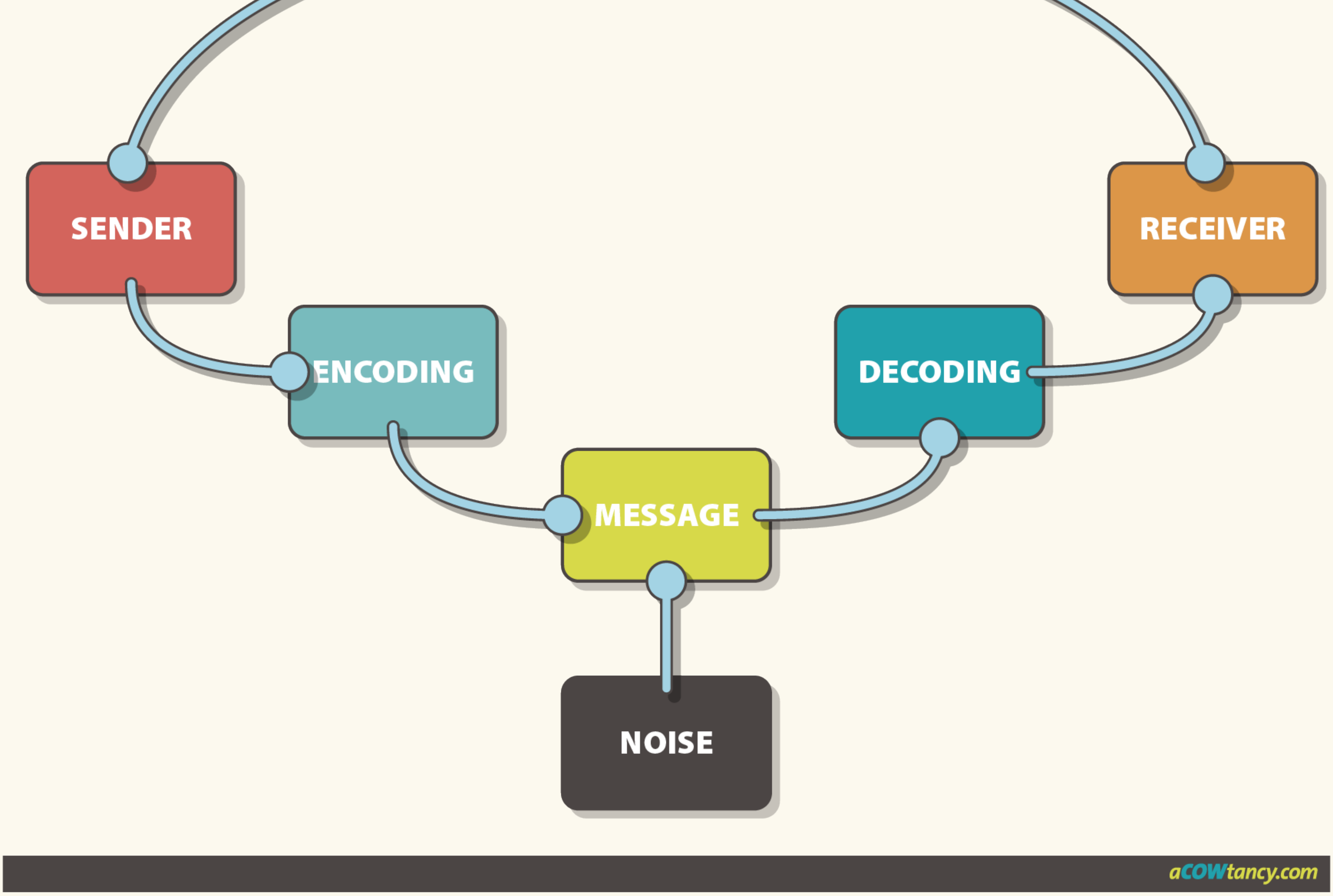
– information should be tailored to the needs and level of understanding of its intended recipients

Timely

– information that is out-of-date is a waste of time, effort and money

Simple Communication Model

A SIMPLE COMMUNICATION MODEL – SENDER, MESSAGE, RECEIVER, FEEDBACK AND NOISE



Effective communication involves a message being sent and received successfully.

A TRANSMITTER/SENDER/ENCODER

of the message is the person who starts the communication process in order to pass on information to others.

The MESSAGE

is the information that the sender wants to transmit.

The MEDIUM/MEANS OF COMMUNICATION/CHANNEL

is the method used for sending the message.

> For example a letter on the notice board or an email.
>
> A means of communication can also be thought of a smell, taste and feel.

A RECEIVER/DECODER

of the information is the person to whom the message is sent.

In businesses, ineffective communication, or communication failure, between people in the firm can have serious consequences.

NOISE

can be one of the reasons why we end up with ineffective communication.

> Noise can be anything that interferes with the communication or makes it difficult to understand.
>
> Noise can arise from many sources, e.g., factors as diverse as load machinery, technical noise such as poor telephone connection to smudges on a printed page, status differentials between sender and receiver and distractions of pressure at work or emotional upsets.

FEEDBACK

is when the receiver confirms that the message has been received and responds to it.

> This ensures that the information has been correctly received by the right person and if necessary, acted upon.

FORMAL AND INFORMAL COMMUNICATION EXPLANATION AND IMPORTANCE IN THE WORKPLACE

Formal communication

Formal communication in organisations follows official reporting relationships and/or prescribed channels.

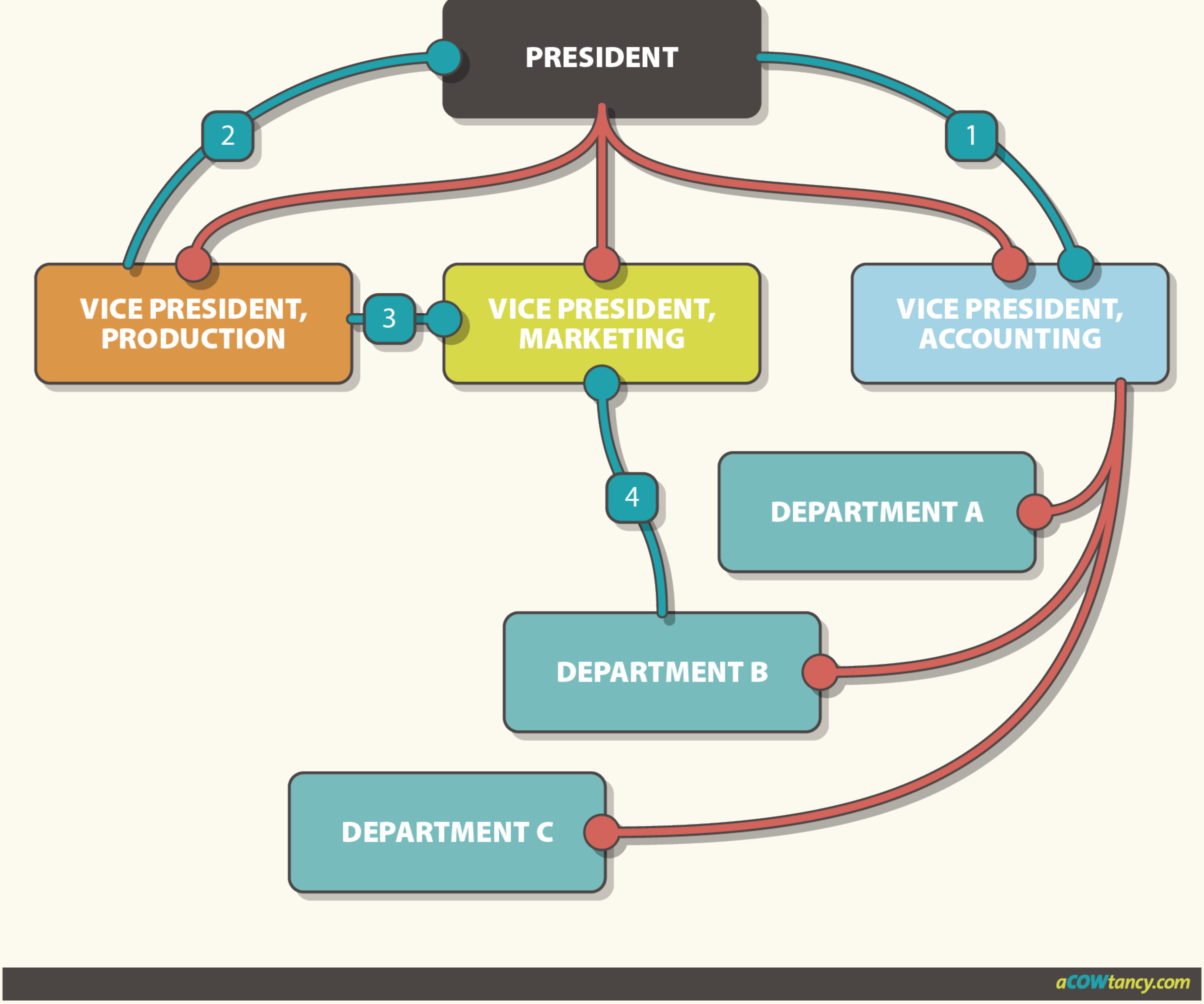
Notices, noticeboards, reports, emails, memos and formal meetings are all example of formal communication.

These are channels of communication which are set up and recognised by an organisation.

Even though formal communication is important and is mostly used both between the management and the employees (vertical communication) and between workers in the same hierarchical level (horizontal communication), it is not the only means of communication that is used in a company.

Communication through the formal channels in an organisation may be (as cited in the figure above):

> **Downward communication**
>
> – provides a basis for specific job instructions, policy decisions, guidance and resolution of queries.
>
> **Upward communication**
>
> – feedback from employees or the levels below in a particular hierarchy explaining any results achieved and problems encountered.
>
> **Horizontal/Lateral communication**
>
> – refers to communication between people or groups at the same level in the organisation.
>
> **Diagonal communication**
>
> – interdepartmental communication by people coming from different ranks



Informal communication

One is also likely to receive information through informal channels, such as meetings with friends or contacts with others in the canteen or at break times.

These informal or unrecognized meetings are sometimes called as the grapevine.

The grapevine is an informal communication network that can permeate (spread through) an entire organisation.

These informal channels can be used by managers to try out the reactions of new ideas such as a new shift system in the factory before communicating details of the new system formally.

If the reaction to management from the grapevine is negative, they might reconsider or even change some details.

THE CONSEQUENCES OF INEFFECTIVE COMMUNICATION

Lack of downward communication is likely to result in:

- poor awareness of corporate objectives at lower management levels
- poor understanding of working instructions and responsibilities
- poor morale of junior managers because they are not consulted about changes which affect them or their working conditions.

Lack of upward communication, including ‘feedback’, has the following undesirable consequences for management:

- early warning of troubled areas is not received
- benefit of creative ability in subordinates is lost
- participation of subordinates is limited
- need for change is not appreciated because management is isolated from the operation areas
- control becomes difficult
- introduction of change is difficult.

Lack of lateral communication often leads to:

- divisions in management teams
- lack of coordination

- lack of coordination
- rivalry between sections and departments
- lack of advice and involvement by staff specialists.

Attributes of Effective Communication

The ultimate test of the effectiveness of communication

For whatever purpose, however it is delivered or whatever its nature – is that those who need the information receive it in a comprehensible form, in the right format, on time and in a state where it can be acted on.

Effective communication will ensure that the right person receives the right information at the right time.

This means it must be:

- **Timely**
- **Accurate**
- **Complete**
- **To the point**
- **Directed to the right people**
- **Understandable**

Effective Communication

THE BARRIERS TO EFFECTIVE COMMUNICATION AND PRACTICAL STEPS THAT MAY BE TAKEN TO OVERCOME THEM

Poor communication can be the result of any number of causes, some of which are discussed below:

1. **Unclear Message**
2. **Message Overload**
3. **Bad Timing**
4. **Jargon**
5. **Speed**

Professional Ethics in Accounting and Business

Fundamental Principles of Ethical Behaviour

Business Ethics

THE IMPORTANCE OF ETHICS TO THE ORGANISATION AND TO THE INDIVIDUAL

Ethics

> has to do with the rightness or wrongness of the decisions and behaviours of individuals and the organisation of which they are members.

Business ethics

> is the application of ethical values to business behaviour.
>
> Ethical issues in organisations are more common and complex than generally recognised.

Some ethical issues influence the decisions that employees make daily. Some ethical issues involve factors that blur the distinction between "right" or "wrong".

As a result employees may experience **ethical dilemma**.

There is no simple rule for making ethical decisions but the following points may act as guidelines or considerations:

1. **The consequences**

   – that is, the end justifies the means

2. **The motivation**

   of the parties concerned

3. **Guiding principles**

   – for example, treat others as you would like to be treated

4. **Duties**

   – for example, based on religious codes

5. **Key values**

   – for example, the importance of human rights

Ethical considerations are important for both the organisation and the individual.

The following points highlight some reasons why **ethics is very important for organisations**.

Ethics is a driver for profitability rather than a burden

Ethics is a part of good corporate governance

Ethics reassures investors about the company's approach towards risk management

Ethics create a warm environment in which employees are more motivated to work

The following points highlight the importance of ethics to the individual:

Consumers may choose to buy ethical items, for example fairtrade products even if they are not always the cheapest

Employees will not blindly accept orders to act in a manner that they personally perceive to be unethical

IFAC (IESBA) Code of Ethics

DESCRIBE AND DEMONSTRATE THE PRINCIPLES

Most companies have approached the business ethics issue by formulating a set of internal policies and instructing employees to follow them.

Often ethics officers also called compliance officers are appointed to monitor the application of the policies and to be able to discuss ethical dilemmas with employees who approach them.

Code of Ethics for Accountants

“The International Federation of Accountants (IFAC) is an international body representing all the major accountancy bodies across the world.

Its mission is to develop the high standards of professional accountants and enhance the quality of services they provide”

IFAC & ACCA (Association of Chartered Certified Accountants)

IFAC & ACCA (Association of Chartered Certified Accountants)

To ensure the development of high standards within the profession, the IFAC established a code of ethics.

These indicate a minimum level of conduct.

As a member the ACCA released there own code of ethics, designed to align to those of the IFAC (this means that the standards of ACCA are the same as those of IFAC)

ACCA Fundamental Principles

1. **Integrity**

   "Members should be straightforward and honest in all professional and business relationships."

   The **ACCA Rulebook** (and the IFAC Code of Ethics) goes on to state that integrity implies not merely honesty, but fair dealing and truthfulness.

2. **Objectivity**

   "Members should not allow bias, conflicts of interest or undue influence of others to override professional or business judgements."

3. **Professional competence and due care**

   "Members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques.

   Members should act diligently and in accordance with applicable technical and professional standards when providing professional services."

4. **Confidentiality**

   "Members should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority or unless there is a legal or professional right or duty to disclose.

   Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of members or third parties."

5. **Professional behaviour**

   "Members should comply with relevant laws and regulations and should avoid any action that discredits the profession."

   The **ACCA Rulebook** goes further, and states that members should behave with courtesy and consideration towards all with whom they come into contact in a professional capacity.

The ACCA's Code of Ethics and Conduct is contained in the annual Rulebook issued by the Association. All registered students, affiliates and members of the ACCA are required to comply.

All ACCA members must comply with the Fundamentals Principles, whether or not they are in practice. Members must identify threats to compliance with the Principles and apply safeguards to eliminate the threat or to reduce it to an acceptable level such that compliance with the Fundamental Principles is not compromised

An ACCA member may be called to appear before the Disciplinary Committee for breach of any of the ethical principles and may be admonished (warned), fined, suspended or excluded from membership.

Organisational Values

DESCRIBE ORGANISATIONAL VALUES WHICH PROMOTE ETHICAL BEHAVIOUR

Values are psychological constructs, internal to a person.

Organizations as such don't have values but, because they are composed of people, their cultures are shaped by values that are shared in varying degrees.

Organisational values act as guiding principles to their employees.

Openness

> A culture high on openness encourages receiving and giving ideas and feelings from internal and external environment.
>
> Openness may also mean spatial openness, in terms of accessibility like installing facebook, no separate cabin for executives.
>
> This openness combined with willingness to share results in greater clarity of objectives and free interactions among people.

Trust

> No matter how many such formal structures there may be in organisations, if we do not trust each other simply to do what we say we will, we cannot conduct business in the modern world.
>
> Trust is confidence in the integrity, ability, character, and truth of a person thing (Berube, 1985).
>
> It is the most critical prerequisite for knowledge exchange and without trust, knowledge initiatives will fail, regardless of how thoroughly they are supported by technology and rhetoric (public speaking) (Davenport and Prusak, 1998).

Honesty

> In the context of human communication, people are generally said to be honest when they tell the truth to the best of their knowledge and do not hide what they know or think.
>
> Apart from being truthful, honesty is also generally thought to involve abstaining from unfair behavior.

Respect

> Respect is an important value that takes into consideration others’ strengths and weaknesses and who they are as persons.
>
> Respect includes also the courtesy towards others and also the willingness to keep confidentiality.

Empowerment

> Empowerment should be seen as the process of an individual enabling himself to take action and control work and decision making in autonomous ways.
>
> The organisation has the responsibility to create a work environment which helps foster the ability and desire of employees to act in empowered ways.
>
> The work organisation has the responsibility to remove barriers that limit the ability of staff to act in empowered ways.

Accountability

> It is frequently described as an account-giving relationship between individuals,
>
> e.g. "A is accountable to B when A is obliged to inform B about A’s (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct".
>
> Accountability cannot exist without proper accounting practices; in other words, an absence of accounting means an absence of accountability.

Acting in the Public Interest

EXPLAIN THE CONCEPT

Acting in the public interest means acting for the common good of the community.

The meaning of ‘the public interest’ is often taken as self-evident.

Proponents and opponents of a proposal can equally and strongly argue that a particular proposal is, or is not ‘in the public interest’, often leading to confusion about the application of the term.

There are any numbers of variables in trying to understand why someone thinks something is in the public interest.

> **Applying different views** on: who the public are: what their objectives should be, what the public actually want, what underlying values should be applied?
>
> **Applying different weighting** to various interests that need balancing?
>
> **Applying different decision-making processes** on, for example, when individual preferences should be over-ridden; the merits of different types of incentive; how people will react, etc?

The emerging governance and accountability regime for business and the professions has become far more concerned with stakeholder interests and ethical matters than has been the case in the past.

Directors, executives and professional accountants who serve the often conflicting interests of shareholders directly and public indirectly, must be aware of the public’s new expectations for businesses and must manage their risks accordingly.

This awareness must be combined with traditional values and incorporated into a framework for ethical decision making and action.

The changes in public expectations and interests have triggered, in turn, an evolution in the mandate for business.

For some businesses, this may be stating the degree of change too strongly; but even they would concede that the relationship of business to society is one of interdependence where the long-run health of one determines that of the other.

The UK government’s Committee of Standards in Public Life set out seven principles that individuals employed in the public sector must follow:

individuals employed in the public sector must follow:

1. **Selflessness**

   – individuals should act solely in the public interest and not for personal gain or that of friends and family

2. **Integrity**

   – individuals should avoid actions which would place them under financial or other obligations whereby the person holding their obligation could influence their public duties

3. **Objectivity**

   – all choices, especially those regarding awarding contracts, rewarding or providing benefits to others and make public appointments must be made purely on merit

4. **Accountability**

   – individuals are responsible for their own actions and are accountable to others.

   They must subject themselves to whatever scrutiny comes with their office

5. **Openness**

   – individuals must be open about their decisions and actions.

   Information regarding the reasons for their decisions must be freely available.

   Restrictions on information are only permitted when it is in the wider public interest

6. **Honesty**

   – where individuals have private interests which relate to their public ones, they should declare them and seek to resolve any conflict to protect the public interest

7. **Leadership**

   – individuals must promote and respect the other six principles through leadership and example

The Role of Regulatory and Professional Bodies

Codes of Ethics & Codes of Conduct

RECOGNISE THE PURPOSE OF BOTH INTERNATIONAL AND ORGANISATIONAL

Reform of the accounting profession has shifted to harmonisation with global standards worked out under the support of the IASB and IFAC.

These global standards have returned professional accountants to focus on serving the public interest.

IFAC Code of Ethics Preface:

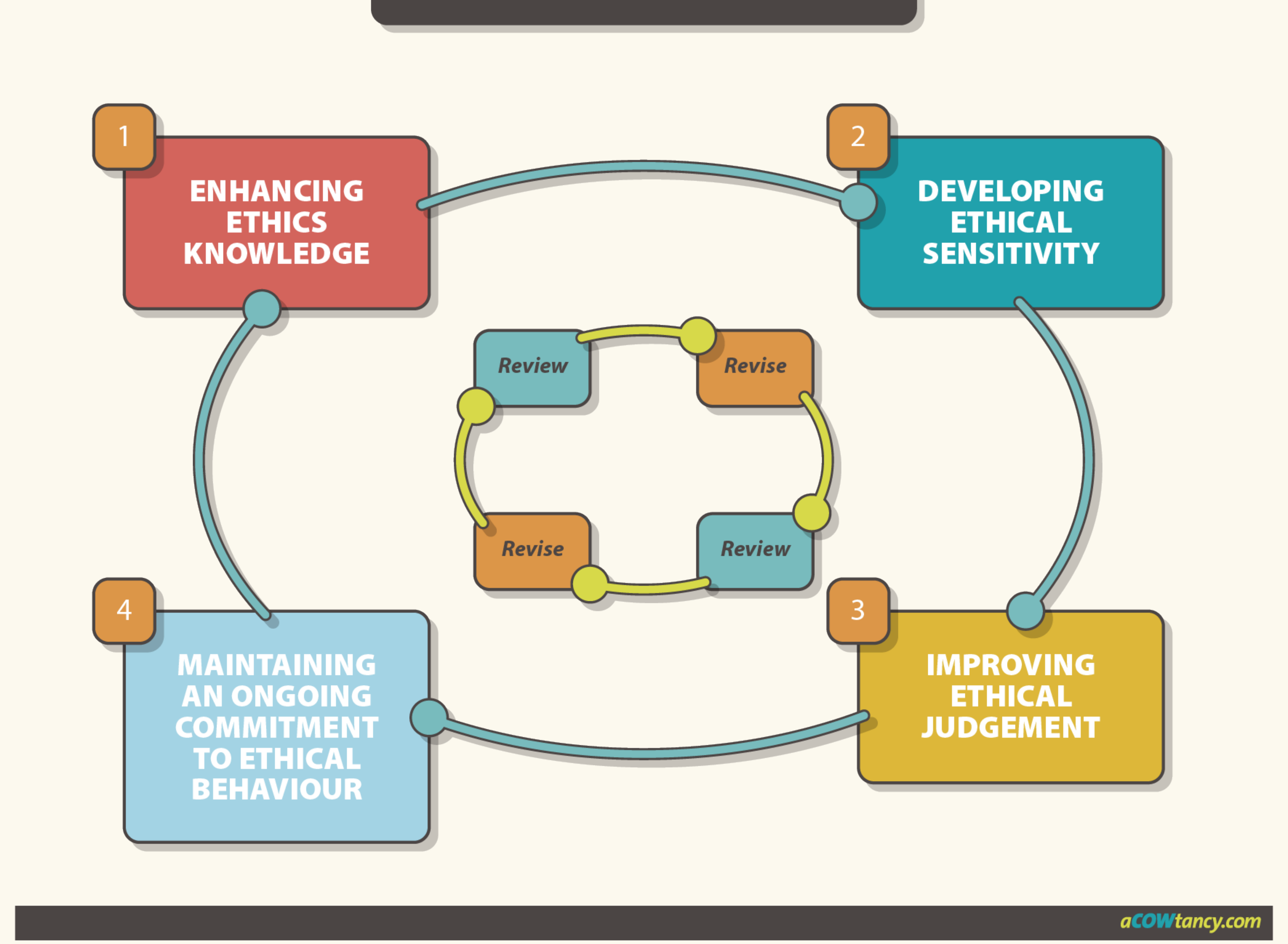
The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is "the worldwide development and enhancement of an accountancy profession with harmonised standards, able to provide services of consistently high quality in the public interest."

> In pursuing this mission, the IFAC Board has established the IFAC Ethics Committee to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.
>
> This Code of Ethics establishes ethical requirements for professional accountants.
>
> A member body of IFAC or firm may not apply less stringent standards than those stated in this Code.
>
> However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they should comply with all other parts of this Code.
>
> Some jurisdictions may have requirements and guidance that differs from this Code.
>
> Professional accountants should be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.

Ethical Awareness

Ethical Considerations

ETHICS EDUCATION CONTINUUM



An accountancy student should start at an early stage of his career (from time of studying) to apply ethical considerations in his decisions.

The diagram above shows how a student should develop his skills in ethics starting from enhancing the ethics knowledge and moving on to developing ethical sensitivity.

Once these criterions are reached, the student / junior accountant needs to improve ethical judgment and continue to maintain an ongoing commitment to ethical behaviour.

The member bodies of IFAC are professional bodies such as the ACCA, so IFAC has no direct ability to punish an accountant who acts contrary to the code.

However, IFAC expect the transgressor's professional body to investigate the matter and punish the accountant if necessary.

Usually the discipline process begins with a complaint being lodged with the professional body about the ethical conduct of a member or firm.

Alternatively, the conviction on a legal charge of consequence (example, fraud) may also trigger the discipline process.

The complaint or legal charge is investigated by staff, and a decision is made to lay a charge or not.

Laying a charge necessitates a hearing to determine guilt or innocence, and the hearing process can be quite cumbersome (burdensome).

When a professional accountant is found guilty, the details of the case are made public.

Lynne Paine suggests that ethical decisions are becoming more important and that there are two approaches to the management of ethics in organizations:

1. **Compliance-based approach** – designed to ensure that the company acts within the letter of the law, and that violations are prevented, detected and punished.
2. **Integrity-based approach** – strive to define companies' guiding values, aspirations and patterns of thought and conduct.

Differentiate a Profession from an Occupation

THE FACTORS THAT DISTINGUISH A PROFESSION FROM OTHER TYPES OF OCCUPATION

Essential professional qualities of an accountant:

Independence – must be able to complete work without bias

Skepticism – you question information

Accountability – responsible for your own judgments and decisions

Social responsibility – act in the interest of society at large

Essential personal qualities of an accountant:

Reliability – when taking on work, you must ensure that it gets done and meets professional standards

Responsibility – in the workplace you should take ownership of your work

Timeliness – clients and work colleagues rely on you to be on time and produce work within a specified time frame

Courtesy – you should conduct yourself with courtesy and consideration towards clients and colleagues

Respect – as an accountant, you should respect others by developing constructive relationships and recognizing the values and rights of others

The Role of the Accountant

THE ROLE OF THE ACCOUNTANT IN PROMOTING ETHICAL BEHAVIOUR

While regulation is important, it is not on its own enough to achieve the objective of assuring quality and consistency of quality in the provision of professional services.

IFAC recognizes that values also are critical in driving behavior.

No regulation can be truly effective unless it is accompanied by ethical behavior.

It is the ethical behavior of the professional accountant that is the ultimate guarantee of good service and quality.

Education in values, especially through example and the appropriate use of experience and professional judgment, based on a solid educational foundation, and reinforced through continuing professional education, will be essential to the future of the accountancy profession.

Regulatory systems should be designed to promote and to achieve these behaviours.

High quality service from the profession is ultimately a function of professional standards, including ethics, personal competencies and values, and regulatory systems, all of which must be consistent with and supportive of one another.

Corporate Codes of Ethics

Definition

DEFINE CORPORATE CODE OF ETHICS

Corporate code of ethics are designed to provide guidance about the conduct expected by members in order that the services offered will be of acceptable quality and the reputation of the company will not be violated.

To be effective, codes of conduct need to blend fundamental principles with a limited number of specific rules.

If a code were drafted to cover all possible problems, it would be extremely voluminous.

Corporate codes of conduct are completely **voluntary**.

They can take a number of formats and address any issue - workplace issues and workers' rights being just one possible category.

Also, their implementation depends totally on the company concerned.

Typical Contents

THE TYPICAL CONTENTS OF A CORPORATE CODE OF ETHICS

Typical framework for a Code of Conduct for Professional Accountants

1. Introduction and purpose
2. Fundamental principles and standards
3. General rules
4. Specific rules
5. Discipline
6. Interpretations of rules

Fundamental Principles in Codes of Conduct for Professional Accountants

Members should:

Act in the public interest,

At all times maintain the good reputation of the profession and its ability to serve the public interest,

Perform with integrity, objectivity and independence, professional competence, due care and professional skepticism, and confidentiality,

Not be associated with any misleading information or misrepresentation

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS CONTENTS

Benefits

THE BENEFITS OF A CORPORATE CODE OF ETHICS TO THE ORGANISATION AND ITS EMPLOYEES

Directors, owners and senior management are in the process of realising that they and their employees need to understand that appropriate ethical values are to be considered when decisions are being made.

Organisational, professional and personal values provide the framework to decision making, therefore, it is vital that organisations create an environment or culture where appropriate shared values are created, understood, fostered and committed to by all concerned.

This cannot be reliably achieved by simply leaving ethics solely to the judgment of individuals in a workforce of divergent experiences and backgrounds to work out by trial and error.

Nor can it be achieved by simply sending a letter urging employees to be on their best behaviour, or by just publishing a code of conduct.

In order to ensure commitment to the ethical principles or values considered appropriate for the organization, it must be evident to the members of the organization that top management is fully supportive and that such support is evident throughout the organization's governance system.

A code of ethics promotes an environment of respect based on integrity.

When people know the code of ethics and follow it, this creates an atmosphere of trust, respect and confidence in the actions of each person involved in the organization or group.

In the presence of a written code of ethics, employees at a company, for instance, are expected to behave a certain way toward each other and toward customers.

The practical result of this is a more peaceful atmosphere in which to work, and one that is free of such widespread problems as work-based sexual harassment, violence and other forms of misconduct.

A code of ethics is only effective in this way when group members are confident that the rules will be enforced.

Ethical Conflicts and Dilemmas

Ethical Conflicts

SITUATIONS WHERE ETHICAL CONFLICTS CAN ARISE

There are no universally accepted principles and rules for resolving all the ethical issues in complex decision-making situations.

In addition, individuals and groups differ over what influences both ethical and unethical behaviours and decisions.

Organisations, though, can draft sets of criteria to be used in making difficult decisions:

1. Is it legal?
2. Is it contrary to our company's adopted code of ethics?
3. Is it contrary to any other published official code of ethics like for example, the ACCA code of ethics and conduct?
4. Would you mind other people knowing what you have decided, for example, if it was published in tomorrow's newspaper?
5. Who is affected by this decision? Would they regard the decision as fair?

The highest form of ethical decision making involves a careful determination of who will receive benefits or incur costs at the consequence of a decision.

For major decisions, this assessment may include a variety of stakeholders for example, shareholders, customers, banks, suppliers etc.

The more specific an individual or group can be about who may benefit and who may incur costs from a particular decision, the more likely it is that ethical implication will be fully considered.

There is a section in the ACCA's Code of Ethics and Conduct dedicated to the subject of conflicts of interest.

ACCA members need to be aware that a conflict between members' and clients' interests might arise if members compete directly with a client, or have a joint venture with a company that is in competition with the client.

The rules state that members and firms should not accept or continue engagements in which there are or are likely to be significant conflicts of interest between members, firms or clients.

Members should evaluate the threats arising from a conflict of interest and unless they are insignificant, they should apply safeguards.

The test of whether a treat is significant is whether a reasonable and informed third party having knowledge of all relevant information, would consider the conflict of interest as likely to affect the judgment of members and firms.

Threats to Ethical Behaviour

THE MAIN THREATS TO ETHICAL BEHAVIOUR

Paragraph 100.12 of the IFAC Code provides:

“Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant’s compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.

Threats fall into one or more of the following categories:

1. **Self-interest threat**

   - the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behaviour;

2. **Self-review threat**

   - the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant, or by another individual within the professional accountant’s firm or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;

3. **Advocacy threat**

   - the threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised;

4. **Familiarity threat**

   - the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

5. **Intimidation threat**

   - the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures,

including attempts to exercise undue influence over the professional accountant"

Ethical Dilemmas

SITUATIONS AT WORK WHERE ETHICAL DILEMMA MAY BE FACED

Most people, most of the time, know the difference between right and wrong.

Ethical dilemmas rarely involve choosing between these two stark alternatives.

Instead, ethical dilemmas normally arise because there is no entirely right option.

Instead, there are compelling reasons for each of the alternatives so it is up to the individual to decide which alternative to choose.

Example 1

You are under timer pressure to complete this month's management accounts.

Important sales information is provided by the sales department usually in good time for you to incorporate it into the final figures.

The sales report is delayed this month due to staff sickness and you will not receive the information until a few hours before the accounts are due for presentation to the finance director.

Answer – there is integrity issue her.

Whilst you may have time to include the information in the management accounts, it is unlikely that you will be able to check its accuracy as well.

Therefore you risk misinforming the finance director of the month's sales.

Example 2

During your lunch break, your company's human resources manager has asked you for some help.

She has recently inherited a considerable sum of money and would like you to calculate her inheritance tax and capital gains tax liability.

She has also asked you for advice on how she should invest the money.

Answer – the issues here are professional competence and due care.

Unless you are a tax expert, it is unlikely that you would have sufficient competence to calculate the tax liabilities.

Giving financial advice can be a minefield, and you may need to be qualified under the financial services regulation before you could do so.

Examples of circumstances that may create self-interest threats for warrant holders in public practice include, but are not limited to:

A financial interest in a client where the performance of professional services may affect the value of that interest.

A loan to or from an assurance client or any of its directors or officers where the performance of professional services may affect the value of that loan.

Concern about the possibility of losing a recurring client.

Potential employment with a client.

Examples of circumstances that may create self-review threats include, but are not limited to:

The discovery of a significant error during a re-evaluation.

Reporting on the operation of financial systems after being involved in their design or implementation.

A member of the engagement team for an assurance client being, or having recently been, a director or officer of that client.

A member of the engagement team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.

Having prepared the original data used to generate records that are the subject matter of the engagement.

Examples of circumstances that may create advocacy threats include, but are not limited to:

Promoting shares in a public interest entity when that entity is an audit client.

Acting as an advocate on behalf of an assurance client in resolving disputes with third parties.

Examples of circumstances that may create familiarity threats include, but are not limited to:

A member of the engagement team having a close or immediate family relationship with a director or officer of the client.

A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.

A former principal of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.

Accepting gifts or preferential treatment, unless the value is clearly insignificant.

Examples of circumstances that may create intimidation threats include, but are not limited to:

Being threatened with dismissal or replacement in relation to a client engagement.

Being threatened with litigation.

Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

Safeguards Against Ethical Threats and Dilemmas

THE MAIN SAFEGUARDS AGAINST ETHICAL THREATS AND DILEMMAS

Safeguards that may eliminate or reduce ethical threats to an acceptable level fall into two broad categories:

1. Safeguards created by the profession, legislation or regulation; and
2. Safeguards in the work environment.

These may include:

Educational, training and experience requirements for entry into the profession.

Continuing professional development requirements.

Corporate governance regulations.

Professional standards.

Professional or regulatory monitoring and disciplinary procedures.

External review by a legally empowered third party of the reports, returns, communications or information produced by a warrant holder.